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Labor Mobility Assessment Interventions and Gap Analysis

FINAL REPORT

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1. Executive Summary

In general terms, the labor market in Bosnia (both Entities) is characterized by the overwhelming size of state sector employment, the relatively small size of private sector employment (especially in the SME sector), the high rate of unemployment, the resilience of the wage reservation rate and the lack of labor demand - due to an under-performing economy. Many existing and would-be participants lack key skill-sets required by modern industry and services. The regulatory environment constitutes a raft of highly prescriptive primary labor legislation and centralized, rigid collective bargaining agreements. The shadow of the former central command socialist system looms large and is still a heavy influencer of behavior by the key actors. There is little evidence of strategic planning within government labor or social ministries and a distinct lack of objective data collection, analytical tools and skills to undertake such planning. For all these reasons (as well as cultural/societal reasons and reasons related to the recent conflict), labor mobility and flexibility (geographic and job-related) is markedly underdeveloped. In this context, there is an almost complete absence – in either Entity - of private sector employment or job-matching agencies, which is noteworthy.

The income tax and social contribution base in both Entities is very narrow due to the underdeveloped state of both economies. Furthermore, it is unlikely that employment will significantly increase in the short-medium term. Therefore, imprudent state expenditure, an inefficient public sector, unnecessary state bureaucracy imposing costs on employers, and high levels of fiscal and labor law non-compliance, have an even greater negative economic impact.

The highly bureaucratized government system, embracing a multiplicity of institutions with similar functions¹ is a heavy burden on the Entities' budgets². The related income tax and social contribution rates (totaling 40.79% and 34.21% of gross wages in RS and FBiH, respectively) whilst seemingly modest in international terms only provide for a limited range of social security benefits, with most cash benefits being capped due to legacy fiscal shortfalls. Furthermore, the system of pay bargaining has inbuilt mechanisms to add significant value to worker remuneration through non-taxable fringe benefits – thereby compounding the fiscal shortfall problem. These benefits include meal allowance and transportation allowance - representing income-in-kind to the employee. It is normal practice to tax income-in-kind as if it was cash income, except where the expenditure was such an integral part of the work that the job could not be done without such expenditure (Example: an employee must travel to a work meeting, and where such travel is unavoidable and represents a true cost to the employee). In such cases, it is normal to allow the **actual cost** of such expenditure as a non-taxable income.

¹ For example: each FBiH Canton has its own Employment Service, with separate laws, separate income stream and separate service delivery system. They are co-ordinated by the Federal Employment Bureau, which in turn is overseen by the State-level Agency for Employment Services. This is a major duplication of effort.

² The Public Service wage bill for 2003 in FBiH was 15.1% of GDP, 30.3% of total Government expenditure.

In specific terms, there is a strong belief by government institutions in both Entities that the above problems are compounded by considerable non-compliance with fiscal and labor laws. They believe that many employees are not registered on payrolls and are not paying taxes or social contributions, and that there are many employees whose official wages are understated and are, therefore, paying less taxes and social contributions than due. The present system whereby employers also pay social contributions based on employees' wages, as well as deducting taxes and contributions from wages before payment to employees, means that employers must also be non-compliant and that some employee/employer collusion in such fraud is highly likely.

Compliance and enforcement systems are weak and fragmented, characterized by a lack of strategic planning, extreme demarcation between agencies, fixation with the 'rulebook' at the expense of quality, under-resourcing and lack of plausible deterrents for non-compliance.

The present fragmented system - in both Entities - of registering employees for tax and social contributions, paying tax and contributions, reporting contribution and contributor data and verifying employee coverage by the healthcare system is cumbersome, inefficient and a cost barrier to legitimate business, especially to SMEs. This system is also characterized by a lack of systematic cooperation and automated IT interface between the main fiscal, labor and social institutions. Such a system, by imposing such overheads and facilitating fraud, contributes to unfair competition by non-compliant business – thereby making non-compliance an attractive – or even a necessary – option for usually compliant employers.

The prevailing system of pay bargaining involves catch-all collective agreements of indefinite length negotiated at the central level and made binding on all employers, both public and private. In essence, these agreements were negotiated between the Government (as owner of all major industries and services affiliated to the Chamber of Commerce) and the Government-approved Trade Union umbrella body. In addition to these central agreements, there are industry-level agreements that bolt on extra pay and other benefits to the central agreement. These sectoral agreements were also negotiated by the Government (as employer) with the Trade Unions representing such industries. To cap it all, the present labor legislation in both Entities gives authority to the Governments to unilaterally extend any Entity-level collective agreement to parties who were not represented in the negotiations – thereby overshadowing any reform that doesn't delete this provision. The Entity Governments have established tri-partite structures – via the mechanism of Economic and Social Councils – but these are still in their infancy and have not yet developed their own personality or space within the labor relations system. Overall, the present labor relations environment, and in particular the collective bargaining system, is not conducive to the development of the private sector, especially SMEs.

It is noteworthy that the EU, in the course of orienting Member States to reform their labor markets, has dealt with all of the issues that presently plague the economies of both Entities and which have been witnessed within the review undertaken by the

authors of this Report. Specifically, in 2003 the EU published guidelines for the employment policies of the Member States³ stating that Member States must:

- encourage job creation by supporting entrepreneurship and a favorable business environment for enterprises,
- simplify and reduce the bureaucracy, regulations and administration governing: starting business, hiring staff and accessing start-up capital,
- reform overly restrictive employment legislation that affect labor market dynamics,
- promote flexible and diverse forms of labor agreements and working arrangements,
- improve access to training and re-training for employees,
- remove disincentives to work (e.g. simplify regulations, provide incentives) and develop actions to eliminate undeclared employment.

These guidelines provide benchmarks for possible targeted reform and should be employed to measure progress.

In summary, there is a wide range of labor market issues in each Entity that require resolution so as to provide a sustainable basis for the development of the private sector, especially SMEs. Whilst the Entities have been combined for the purposes of the overview, there are differences between them in terms of severity of problems and potential for progress – depending on the aspect of the labor market under examination.

With regard to how USAID might provide strategic support to such resolution in the context of labor market reform, the recommended key areas to target support are:

- Operational/Institutional Reform
- Policy, Strategy, and Data Analysis
- Flexibility, Collective Bargaining and Dispute Resolution
- Compliance and Enforcement

The body of this report sets out, within each of the above categories, the findings of the Team's mission, the analysis of the information collected and specific recommendations for deployment of possible USAID support.

³ European Council Decision (2003/578/EC), 23 July 2003.

2. Introduction

This Report deals with the findings, analysis and recommendations arising from research in Bosnia from March 6th to 26th 2005 undertaken by a Labor Market Assessment Team deployed by BearingPoint Inc, under the auspices of USAID in Bosnia and Herzegovina. The Team, comprising of Alex Brudno, Eimar D Coleman and Edward Funkhouser, was asked to review the labor market in both Entities (Federation BiH and Republika Srpska) in the context of earlier analyses and reports prepared for USAID by Liz McKeon, Denise Lamaute and Matthew Finkin, also under the auspices of USAID. In particular, the Team was asked to further examine five key areas identified in earlier studies as being potentially fruitful in terms of reform that would stimulate the development of Small and Medium Enterprises. The Terms of Reference, including these five key areas, is attached at *Annex A*. The Team presented initial findings and proposals on 24 March 2005 and a summary of this presentation is attached at *Annex B*.

During the course of the mission the Team met with representatives from all key players in the labor market, including State-level Ministry, Entity Government Ministries, Extra-Budgetary Funds, Employer Organizations, Trade Union Representatives, International Organizations and Donors, as well as implementers of projects funded by the international community. A list of meetings held is attached at *Annex C*.

It would not have been possible to undertake this mission without the support and guidance provided by John Seong and his team of professionals from USAID. They gave us invaluable insight into the complex environment that is the BiH institutional framework and labor market. Early into our mission both John and his colleagues, especially Caroline (Brearley), gave us important feedback and encouragement that enabled us to focus our efforts on the most productive issues. We were also very fortunate to have on-site time with Liz McKeon, much of whose earlier research and analysis work was the basis for our mission, and who accompanied us to some of our key meetings and interviews. In this way, we were able to better explore priority topics and to compare first-hand our experiences and findings with those of Liz – thereby enabling us to have a better platform for our recommendations. Throughout our mission we had great operational support from Dobrila (Boba) Vukmanovic and Almir Jazvin from USAID who, in addition to making introductions and very efficiently arranging our meetings with all of the key institutions, also attended most of these meetings and provided us with valuable local context for our findings. Boba and Almir also supplied us with key documents and legislation – often on short notice, thereby enabling us to move more quickly with our research.

Finally, we wish to thank Yair Baranes, Chief-of-Party (BearingPoint) at the Pledge Registry Project, and his team (especially Maja, Zeljka and Jasminka), who permitted us the use of their offices and communications facilities and who provided valuable translation/interpretation for us.

ACRONYMS/ABBREVIATIONS

ACILS	American Center for International Labor Solidarity
ADR	Alternative Dispute Resolution
C&E	Compliance and Enforcement
CID	Citizen Identification Card
CIN	Citizen Identification Number
EBFs	Extra-Budgetary Funds (Pension Fund, Health Fund, Employment Fund)
EC	European Commission
EU	European Union
EU-CARDS	Community Assistance for Reconstruction, Development & Stabilization
FBiH	Federation of Bosnia-Herzegovina
FSVC	Financial Services Volunteer Corps
HIO	Health Insurance Fund (in either Entity)
ICT	Information and Communications Technology
ICFTU	International Confederation of Free Trade Unions
ILO	International Labor Organization
JMBG	Citizens Personal Number
LBiH	Living in Bosnia and Herzegovina (household survey)
LFS	Labor Force Survey
LSMS	Living Standards Measurement Survey
MLSP	Ministry of Labor and Social Policy (FBiH)
MLVA	Ministry of Labor and Veterans' Affairs (RS)
MoL	Ministry of Labor (generically)
MoF	Ministry of Finance (generically)
OHR	Office of the High Representative
PIO	Pension and Disability Insurance Fund (in either Entity)
RS	Republika Srpska
SITAP	Social Insurance Technical Assistance Project (World Bank)
SME	Small or Medium Enterprise, where "small" is defined as a private firm with fewer than 50 employees and/or less than €10m turnover annually; and "medium" enterprises having between 50 and 249 employees and annual turnover not exceeding € 50m.
SOE	State Owned Enterprise
TA	Technical Assistance
TAD	Tax Administration
WB	World Bank

3. Operational and Institutional Reform

3.1 Overview

The present system that governs employers' interface with the Tax Administration and the Extra-Budgetary Funds is comprised of the following main processes: employer and employee registration, income tax and social contribution payments, transmission of income tax and social contribution payment data, periodic transmission of employment and wage data in respect of employees, and retention/update of employee workbooks. Furthermore, the Health Funds require monthly re-verification of employee eligibility for insurance-based health services, a process that can involve employers⁴.

The Team undertook an in-depth review of this system and concluded that it is highly inefficient, overly complex and costly for employers (especially SMEs), and facilitates non-compliance. The Team also concluded that it is possible to rationalize the system, effect major efficiencies, close off non-compliance loopholes, whilst also eliminating the requirement for workbooks⁵ and monthly re-certification with the Health Funds⁶.

The review focused on how IT could be best utilized to leverage efficiencies and reform the system, without requiring deep policy or legislative change. The review included:

- an assessment of current operational systems that impact employers and workers in their relations with the tax administration and extra-Budgetary funds⁷;
- identifying systemic impediments to the more efficient movement of workers between employers, recruitment and redundancy, and the take-up of extra employment;
- identifying systems that could be implemented to improve the efficiency of management of these various functions within Entities.

⁴ Local information revealed that it is not uncommon for some Health Fund offices to request the employee to provide documentary evidence that their employer has recently paid contributions. This is perhaps because the Health Fund office has not received local records of such payments (perhaps data input is in arrears/local record-keeping deficient?) or perhaps it is easier for them to get the employee to undertake the verification. Irrespective, it is another instance of where some employers must undertake needless extra work. In the case of the Employment Fund, the system whereby recent employment data is used to qualify a person for benefit and/or Health Fund credits means that such employees must request this data from their employer. This is the case where the relevant employment period is **after** the period for which end-of-year data (M4) has been submitted.

⁵ The labor laws stipulate that each employee must have a workbook and that this book must be kept by an employer for the duration of the employment contract, during which the employer annually updates it with work-related information. This is seen as a serious impediment to labor mobility and to taking up more than one employment at a time.

⁶ See note 4 above. Health Funds require employees to bring their health-books to the Health Fund every month and re-certify their eligibility for services. In cases where the Health Fund does not have a record of the employer's contribution payment for the previous month, the employer must give the employee a document to verify that they have paid their health contribution for the previous month.

⁷ Pension Fund, Health Fund, Employment Fund

3.2 Main Observations - Existing Systems

The similarity between each Entity's existing systems is notable and a reflection of the pre-conflict situation in Bosnia. This similarity, in turn, lends itself to a proposal that can be implemented in each Entity, without significant variation.

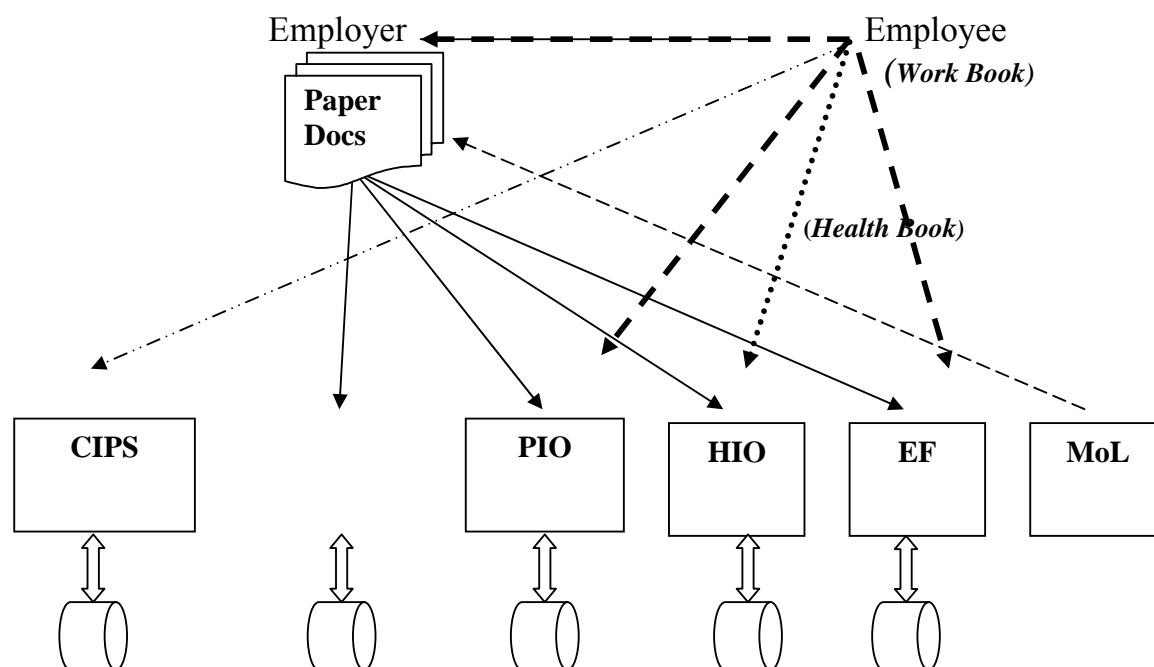
The present systems are characterized by the level of demarcation between institutions that deal with the same customers and which require the same type information from those customers at similar intervals. There is very little evidence of planning for efficiencies that can result from rationalizing processes. The high administrative burden on employers, especially SMEs who must minimize their cost base to effectively compete, is not a factor that weighs heavily within these institutions. In addition, the following specific observations are made:

- The functionality within each institution's IT system mainly reflects the institution's business and legislative responsibilities – irrespective of whether or not these functions are duplicated by similar functions in related institutions;
- Institutions hold a significant level of similar information but lack data quality coordination and data-sharing protocols;
- Information is fragmented and its' quality is often unsatisfactory – and therefore not easily adapted to multiple purposes, and not reliable enough to share with confidence;
- Institutions tend to use their own data formats, which are non-compatible between institutions;
- The lack of data exchange between different systems (CIPS, Tax, PIO, HIO, EF) and between similar systems in the different regions/levels (Federation, Cantons, Republika Srpska), effectively prevents the collection of accurate and timely information, resulting in unnecessary processes such as monthly Health Book verification;
- All systems that were reviewed are paper-driven (manual data entry) - there are no electronic forms or electronic data submission processes;
- The reporting/compliance burden on employers is very significant, as all systems require separate data submissions and payments;
- All payments are lump sum transactions without accompanying personalized information about workers;
- Due to the lack of shared, accurate and timely information, two paper based registration documents are currently in use: Work Books and Health Books. The Work Book represents a significant restriction to labor mobility, whilst the Health Book burdens employers and employees with non-productive repetitive administration.

3.3 Main Data Processes and Limitations – Existing Systems

Diagram - Data Flow in Current System

(Registration, Data Collection, Payments, Compliance, and Enforcement)



Limitations:

- Employer's reporting burden
- No data sharing/verifications between the Agencies (JMBG, TIN⁸, etc.)
- Lump sum (non-personalized) tax payments
- Lump sum (non-personalized) contribution payments
- Ambiguous and outdated statistical/reporting information
- No information for employees and MoL
- Labor mobility restrictive - Work Books
- Mandatory monthly 'verification stamps' in Health Books

⁸ Citizens ID number, Tax ID number
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3.4 Main Recommendations – Enhanced System

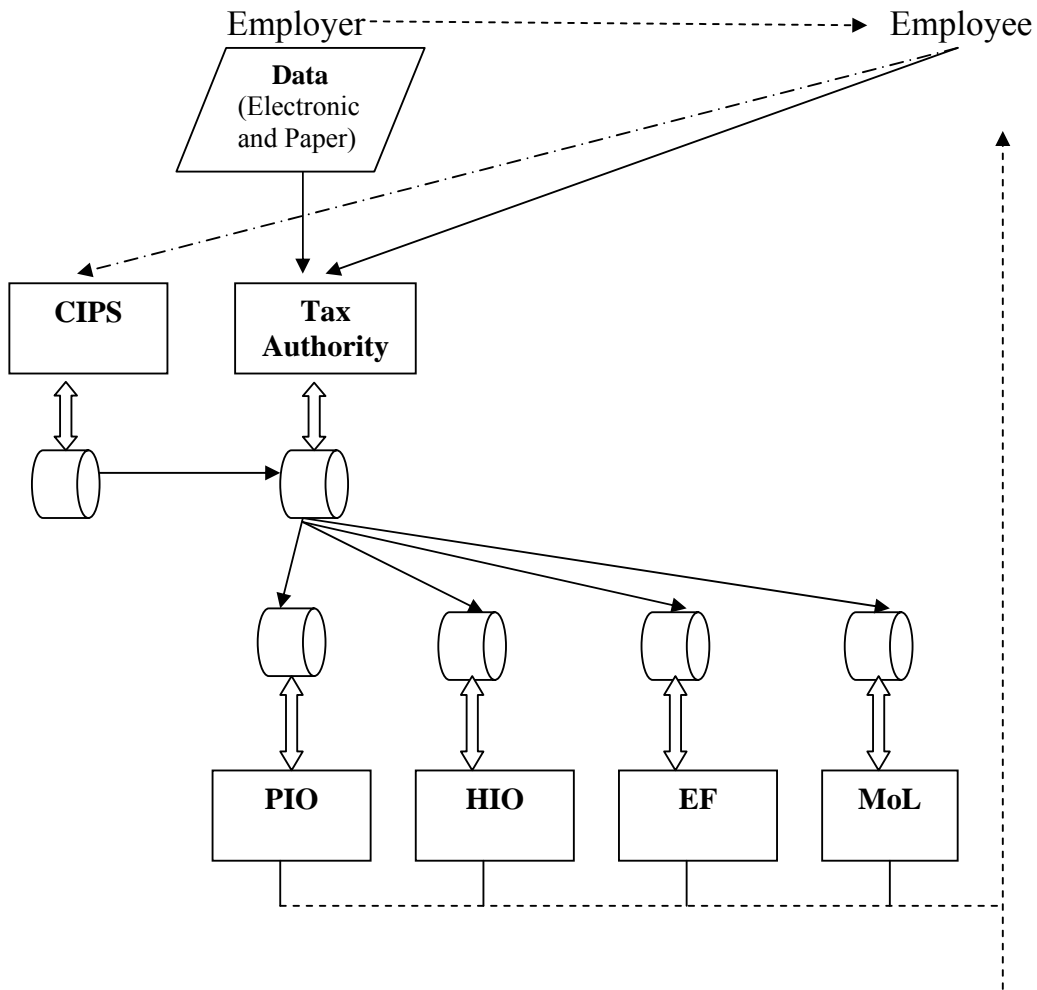
The enhanced system will involve a single focal point, a single route and single process for employer and employee registration with all participant institutions. This new integrated route will also be used to periodically update the participating institutions with data about work, wage, tax and contributions. The Tax Administration will be the focal point for these transactions. The Tax Administration is planning to introduce individual income tax records and this proposed integration strategy is consistent with such plans. Therefore, the integration of the employee registration for EBFs should not represent a significant administrative burden on the Tax Administration. Likewise, the receipt of additional information that is required by the EBFs should also not significantly increase the administrative burden of the Tax Administration, especially because the employer is already submitting individual employee data to the Tax Administration. The extent of the increased administration effort will be a function of the extent to which the process is automated. The details would be worked out at the system design stage. In this way it will no longer be possible to avoid registration with any single participating institution, and likewise it will no longer be possible to avoid sending data to any single institution. The integrated model will ensure that data is consistent between participating parties and that data is shared in a systematic way. It will not diminish the operational independence of these parties but will free them from undertaking duplicate work such as registration of employers by **each** institution.

The enhanced system will facilitate the elimination of Work Books and thereby contribute to the possibility of increased worker mobility. Likewise, the enhanced system will enable automatic notification of employee contributions to Health Funds, enabling them to dispense with the system of monthly manual verification (stamping) of employee contribution payments and resultant coverage for health services. This latter facility will require some amendment to existing business procedures within the Health Funds and will require IT enhancements to their systems of individualized employee accounts. It is not possible, without an in-depth analysis of (a) each Cantonal Health Fund's administration and IT system, and (b) the administration and IT system in the RS Health Fund, to estimate the cost of such works. In the case of FBiH this will involve 10 Cantonal Health Funds, whilst in RS there is only 1 Health Fund and it is at the Entity level.

The new business process is outlined at high level in the data flow diagram below.

Diagram - Proposed Data Flow within Enhanced System

(Registration, Data Collection, Payments, Compliance, and Enforcement)



3.5 Technical Assistance Proposals

It is estimated that this project will be undertaken over a 3 to 4 year time-frame and that some advisors will be assigned concurrently in each Entity. It is proposed that the software development will be undertaken within the project by a selected 3rd party external supplier. There is an assumption within this proposal that the existing scanning and electronic archiving resources of the Tax Administration in each Entity will be available, with the cost included in the proposed project – principally to scan and archive Work Books and Health Books before decommissioning them. The planned individualization of employee income tax records has been factored in at no cost to the proposed project. It is also assumed that counterparts will provide full-time resources to work with the proposed TA Team.

In addition to TA, it is expected that there will be a budget for hardware, software and communications procurement – though the final cost cannot be estimated without reviewing the existing ICT inventory and estimating what is salvageable. However, high-level estimates could be roughly estimated as follows:

	US\$
Hardware	130K
Software licensing and development	500K
Communications	50K
Training	70K

The main components of the project would be:

- Legislation amendments – to remove impediments to integrated system and tidy-up existing disparate provisions. Legislation requiring amendment includes: Laws on Pension and Invalidity Insurance, Laws on Master Registration, Laws on Contribution, Laws on Tax Administration and Law on Health Insurance (especially FBiH law).
- Business Process and Data Flow re-design.
- Data forms re-design, including preparation of individualized forms and electronic submission procedures.
- Software enhancements, including establishment of individual accounts (in Tax Administration and Health Fund) and new forms processing.
- Establishing new data exchange and verification procedures between different institutions - with the Tax Administration serving as a focal data point.
- Providing on-line, off line and scheduled access and notifications for all involved parties regarding their work tax payments, history records, current health benefits, pension contributions, etc.

Principal TA Components

Component	Tasks	LOE (months)	TA Resource
1. Legal	Amend existing tax and social security legislation	4	1 Public Sector Advisor/Lawyer
2. Business Analysis	Design new data flow and business processes, design new forms, specify electronic data transfer requirements.	12	2 Public Sector Advisors (6 months), 2 IT advisors (6 months)
3. System Design and Approval	Detailed System Requirements specifications, preparation and approval.	6	1 Public Sector Advisor (3 mths), 1 IT advisor (3 mths)
4. Tender Process	RFP preparation, bidders solicitation, winner selection.	4	1 IT advisor 1 Public Sector Advisor (can be undertaken by experts in 3. above)
5. System Development, Testing and Implementation	Hardware & software procurement, application software development, training, etc	8	Selected IT vendor, 2 IT Advisors, 1 Training Expert
6. Systems Maintenance	Work Book data capture, existing data conversion, quality control, maintenance	16	Selected IT vendor, 1 IT Advisor
Total TA LOE:		50 months	

Note:

Components **1** and **2** could be activated immediately, with the remaining components brought on stream - beginning with component **3** – after 6 months.

3.6 Impact of Proposed Technical Assistance

The proposed re-designed system will immediately bring about significant improvements in data accuracy, timing and compliance - without major policy or legislative reform. Furthermore, this proposal is consistent with the advice being given within the World Bank's present 'SITAP' social security reform program⁹.

⁹ SITAP Projects 1.5 and 1.2 have advised that the existing employer/employee registration and data collection systems be rationalized and integrated.

The outcome of the proposed Technical Assistance will have a positive impact on employers, employees and state institutions. Principal features will include:

- Simplified tax/contribution registration and data reporting process
- Reduced administrative burden on employers
- Reduced public administration costs
- Single Identification/Registration Coding system shared by all institutions
- Data sharing/verifications between institutions (JMBG, TIN, etc.)
- Reliable and consistent data – shared by all institutions
- Personalized tax payments
- Individual Pension, Health, and Employment contributions records
- Reliable and timely statistical/reporting information
- Regular statements of tax and contribution account for employees
- Phased elimination of Work Books and Health Books

4. Policy, Strategy and Data Analysis

4.1 Policy and Strategy Development

The labor market policies of the Ministries of Labor in both Entities are under-developed and largely confined to sponsoring protective and prescriptive legislation, inspection of workplaces and investigating breaches of labor contracts. In most other areas – such as research, monitoring labor market developments, developing strategy, reforming the collective bargaining system, up-skilling the workforce etc – these Ministries are passive and/or lack the wherewithal to do such work. In addition, there is little evidence of institutional understanding of the specialized needs of a nascent private sector or the specific requirements of SMEs.

In terms of management, the system is relatively centralized in the RS, whilst the Federation of BiH has devolved many employment-related services to its Cantons, all of which operate quite autonomously. At State level, an Agency for Labor and Employment has been established, whilst tri-partite Economic and Social Councils have been established in each Entity. However, none of these bodies has yet developed a role or capacity for research or policy formulation.

A key requirement for policy formation is the availability of reliable data and the capacity to analyze the data. It is usual to rely on Governmental Statistics Agencies to collect the data and provide analysis. However, there is a severe lack of reliable data on the labor market in both Entities and the responsible Statistical Agencies don't presently have the skills required to provide in-depth analysis for policy-makers.

An example of where the lack of institutional capacity impacts negatively on policy development is the issue of whether or not a statutory minimum wage would be desirable for the purposes of making the labor market more flexible. There are many international examples of such a minimum wage provision but they are usually linked to strategic labor market and employment policies - based on research, objective data collection and analysis, and wider economic impact considerations (see Annex D). None of the Entity Labor Ministries, Entity EcoSocs or even the State-level institutions currently has the capacity to undertake such work.

In summary, the present labor policy development system is weak, lacking strategic emphasis, re-active rather than pro-active and in urgent need of capacity-building. Little attention is being paid to the structural skills imbalance that will become evident in the event of any significant economic upturn. However, this situation can be rectified. International technical assistance – designed to influence policy makers, transfer skills and expose key institutions to best international practice and experience – can provide a solid platform from which labor market and employment policy can be developed and made more private sector friendly.

4.2 Supply of Skilled Labor

The labor market in Bosnia and Herzegovina is characterized by high levels of unemployment, on the one hand, and an acute shortage of labor with the necessary skills that closely fit the needs of a liberal market economy, on the other. Many of the former state-owned industries have collapsed or in perilous shape. The technology

formerly employed by these enterprises is now outdated and unsuitable for going forward. Workers and former workers in a significant number of such industries are facing structural unemployment, presenting them with enormous difficulties in finding worthwhile employment elsewhere. For example, there are many car mechanics in both Entities that were trained under the previous regime to work on cars that were in operation at that time. Today, a wider range of more complicated cars require servicing by mechanics with more current technical skills. A significant skills gap exists.

One approach to this problem is to assume that firms requiring such skills will train the workers internally. This would occur if the training provided is firm-specific and not transferable to other firms. However, if such skills are transferable to other firms, there is no guarantee that the workers will stay with the firm that provided the training. In our earlier example, other firms may be willing to pay the trained mechanic a higher wage than the original firm, because they did not incur the costs of the training. In the case of training for such general skills, it should be the worker that pays for the training since it is the worker that will obtain the benefits through higher wages over time. However, such training may not be possible because (a) training facilities do not exist or (b) the worker cannot afford the direct or indirect costs of the training. In this case, there is a possible role for the government: to provide the training at reduced cost, organize training paid for by non-government funds, or subsidize training within the firms that do the training on-site. Currently, in Federation BiH the Canton-level Employment Bureaus provide the last type of assistance. There is likely a significant need for the first two types of training support, but at present there is little knowledge as to the skills that are in short supply and the number of workers that require training.

In Republika Srpska, state-sponsored worker training is undertaken through the Employment Institute. This Institute also makes unemployment benefit payments and pays health insurance premiums for registered unemployed persons and their dependents, as do the Federation Employment Bureaus. In addition, the Institute provides a limited range of services concentrating on generic skills building such as language and IT training, and funding internships (mainly in state organizations) for younger workers. Employers are also given subsidies (unspecified) to undertake worker training and employ certain categories of workers such as: long-term unemployed, invalids, persons needing a small number of contribution years to comply with retirement pension conditions, young persons without previous work experience, etc. Much of this latter activity is unlikely to have a significant impact on the stock of suitably skilled workers available to the private sector. We were also informed that the Institute regularly holds 'public tenders' to invite employers to apply for employment and training subsidies. However, the system of choosing which employers to subsidize and which unemployed persons to match with job vacancies is opaque. When queried, the RS Employment Fund management stated that, following the receipt of tender applications they decide on who gets awarded the subsidies, based on who they think is most suitable – there was no evidence of a formal selection system (e.g. points/marks for certain key criteria, etc).

In the Federation of BiH, the Entity-level Employment Bureau has no direct role in training. Worker training occurs through the Cantonal Employment Bureaus, which also provide employment matching services, payment of unemployment benefit and

payment of health insurance premiums for registered unemployed persons and their dependents. However, the current mechanism for funding does not allow significant resources to be devoted to the training component in FBiH. The payroll tax for unemployment insurance funds is paid directly to the bank account of the Canton-level Employment Bureau (70 %) and the Entity-level Employment Bureau (30%). Approximately 85 percent of the funds at the Canton level are targeted to the payment of unemployment insurance benefits and the payment of the health premiums, leaving only 15 percent for administrative costs and training programs. This results in significant deficiencies in the types of programs that have been offered and the ability of the Canton-level Employment Bureaus to stay up-to-date in the skill needs of the local labor markets. Therefore, there is a significant opportunity for external assistance to have a positive impact in this area.

We do not propose that USAID get directly involved in training programs. What we do propose is that USAID provide technical assistance to build the local capacity to conduct regular diagnostics of labor market needs and monitor the supply and demand for each type of skill needed in these local labor markets. Each of the 10 Canton-level Employment Bureaus and the Employment Institute in the Republika Srpska should regularly monitor (probably in coordination with the Snapshot Survey of the Statistics Agency in each Entity) the skills in short supply, the trends in the labor market, and produce a forecast of training requirements. This information should be used to design training programs that service the needs of the local labor markets. The technical assistance could also assist the RS Employment Institute and the Cantonal Employment Bureaus to convince non-government sources that the provision of targeted training (not generic skills training) organized through the Employment Bureau could be cheaper than providing the training themselves, and that they should participate in funding the costs to the Institute/Bureaus of providing the training.

4.3 Role of State-level Labor and Employment Agency

Having visited the State-level Agency for Labor and Employment, the Team formed the view that the Agency had no sense of purpose and little authority. The senior management was in open disagreement as to their role and their business plans. The Council advising the Agency makes decisions by consensus, giving each Entity veto power over any activity it does not favor. The one area in which there may be a role for USAID in the future is in the development of the analytic capability of the Agency. We were informed that the Agency's Advisory Council did approve a diagnostic pan-Entity study of the labor market, including a comparative analysis of their respective labor laws. However, no progress has been made, despite the fact that the only outstanding requirement seems to be IT capability to analyze the outcome and perhaps some training as to how to undertake such a study. Whilst we realize that USAID would like to support State-level agencies, we do not recommend that USAID provide assistance to the State-level Agency for Labor and Employment in its current condition. At some future date, when the Agency becomes more effective, USAID could consider the possibility of providing technical assistance to build analytical capacity within the Agency.

4.4 Data Collection and Analysis

4.4.1 Background

Statistics related to the labor market and SMEs in both Entities are limited and analysis of the available data is practically non-existent. There is a statistical Agency in each Entity and a State-level statistical Agency that coordinates between the two. There have been several donor-sponsored projects that have involved the statistical Agencies of both Entities.

The formation of the State-level Agency has been a difficult process. Following its inception (Gazette 4/97 and 16/98), the role of the State Agency did not have the authority that was intended in the law. First, the State Agency was given the role of collecting data from the Entities and acting as a representative of Bosnia and Herzegovina with international organizations,¹⁰ with the operations of the Entity level Agencies being determined by the Entity Agencies themselves.¹¹ Second, the law specifies that decision-making in the council overseeing the State-level Agency and determining its agenda was to be effected by consensus, which gives veto power to either of the Entity Agencies.¹²

In response to the weakness of the initial process, a second law was endorsed by the Council of Ministers in July 2001, but was not adopted by the competent authorities. Following this, the OHR issued a decree on October 21, 2002 re-establishing the role of the State-level Statistics Agency with more authority. One of the stated reasons for the Decree was that “the lack of reliable and comprehensive statistical data for Bosnia and Herzegovina represents a serious impediment for the future development and economic prosperity of Bosnia and Herzegovina.”

The new law clearly indicates that the State-level agency has responsibility to require that certain data and methods be used by the Entity agencies and that the Entity agencies must provide that data.¹³ In principle, there is agreement between the State Agency and the two Entity Agencies that labor market data needs to be improved. It is still unclear, however, exactly what authority the State-level Agency will hold in practice.

The process reconstituting the State-level Agency, including the selection of a Director and two Deputy Directors, and the Managing Council¹⁴, occurred at the end of 2004. The development of the activities of the Agency is underway and the practical aspects of the new relationship between the State-level Agency and the Entities are still being determined. The State-level Agency produced a draft of its 2005-2006 Statistical Program in coordination with the Entity-level agencies,

¹⁰ Article 2 of 4/97 and Article 4 of 16/98.

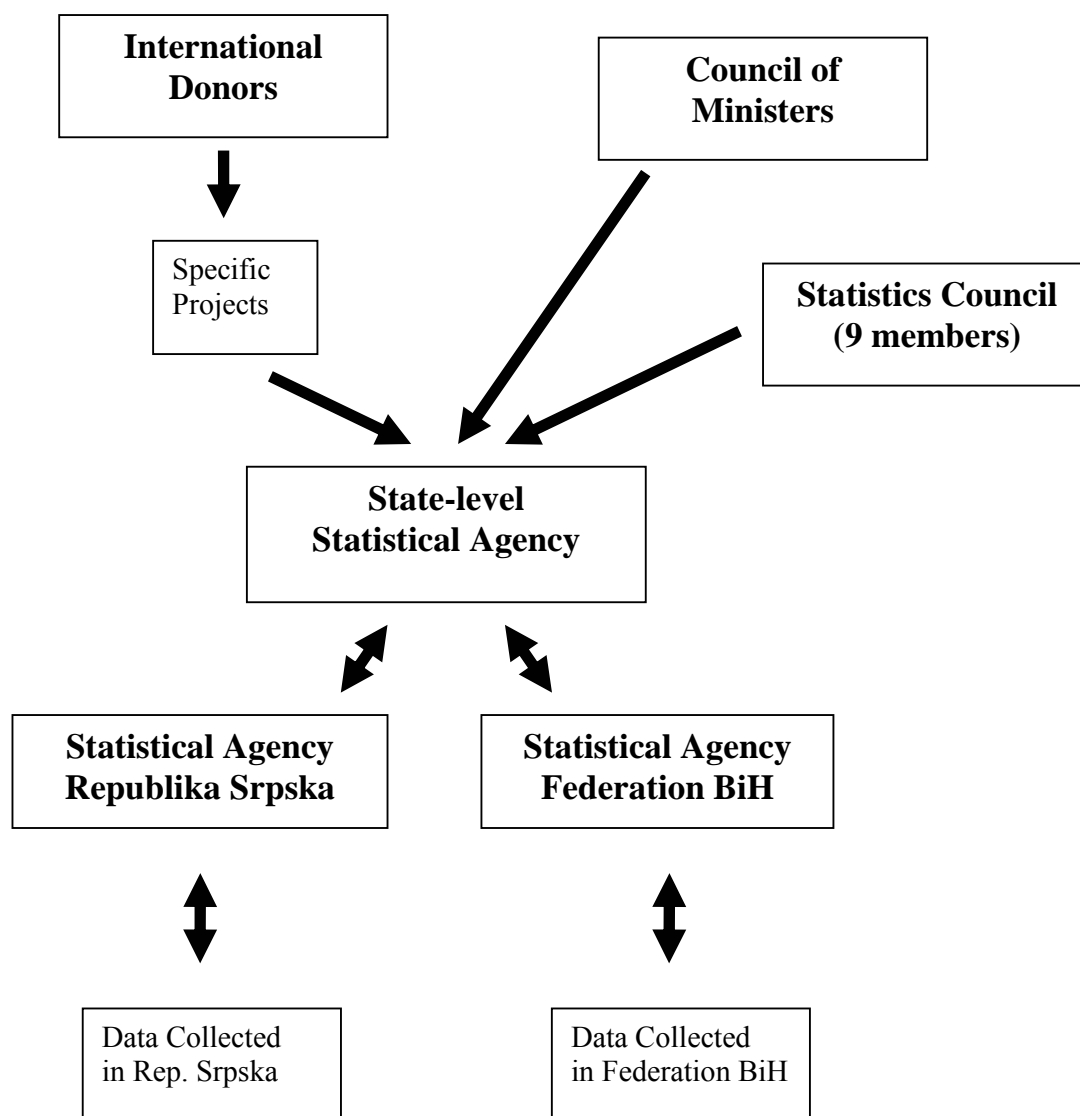
¹¹ Article 3 of 4/97 states “The BHAS cannot have any jurisdiction over Entities’ Institutes.”

¹² Article 4 of 4/97 and Article 6 of 16/98.

¹³ , In fact, Point 3 of the Decree states “It is further directed that ... within 12 months of this Law coming into effect, the Entities shall enter into negotiations with a view to combining the Entity Institutes with the Agency so that all aspects of collecting, processing, and disseminating statistics are dealt with at the level of Bosnia and Herzegovina and form part of the responsibilities of the Institutions of Bosnia and Herzegovina.”

¹⁴ The Managing Council includes 3 persons from the State Level Agency (Director, two deputy directors), three from the Entity agencies (including Brcko), and three other members appointed by the Ministry of Civil Affairs.

EUROSTAT, the EC, and the IMF. The program is to be sent to the Council of Ministers for approval.



4.4.2 Agenda of the Statistical Agencies

Representatives in each of the two Entity Agencies and the State Agency indicate that the agenda for the collection of labor market information has been purely donor-driven. The Living Standards Measurement Survey, in particular, was implemented instead of the planned Household Budget Survey and Labor Force Surveys – so as to obtain the financial support of the World Bank. Similarly, the follow-up waves of the Panel Survey, based on the LSMS sample, were implemented with the financing of DFID. The Household Budget Survey was not implemented until 2004 and the Labor Force Survey is being implemented for the first time later in 2005.

An overview of the data related to the labor market and Small and Medium Enterprises that is collected by the two Entity level agencies is described in Table X below:

Table X -- Overview – Statistical Agencies

	Statistics Agency RS	Statistics Agency Federation BiH	Coordinated?
Firms	Out-of-date business register, new firms register with statistics	Updated business register, new firms register with statistics	No
Data on Employment	Own Survey of Firms, but not published; Semi-annual more-detailed survey	Own Monthly Survey of Firms with 10+ workers; annual more-detailed survey	No
Data on wages	Own Monthly Survey of Firms; Semi-annual more-detailed survey. Data used to calculate average wage in RS.	Own Monthly Survey of Firms with 10+ workers; annual more-detailed survey. Data used to calculate average wage in Federation.	No, but similar methodology
Data on registered unemployed	Employment Bureau information of those registered to receive health benefits - not in line with ILO methodology.	Employment Bureau information of those registered to receive health benefits – not in line with ILO methodology.	No, but consistent
Household Surveys	LSMS 2001 Living in BiH 2002 Living in BiH 2003 Living in BiH 2004 Household Budget Survey Labor Force Survey 2005 Planned future LFS	LSMS 2001 Living in BiH 2002 Living in BiH 2003 Living in BiH 2004 Household Budget Survey Labor Force Survey 2005 Planned future LFS	Yes, financed by World Bank, DFID, UNDP
Data on Firms	1) Limited 2) Status of Firms in Mining, Man., and Utilities 3) Semi-annual survey of firms	1) Own survey of 17,500 firms 2) Status of Firms in Mining, Man., and Utilities	1)No 2) Yes, financed by EU
Household Budget	Household Budget Survey	Household Budget Survey	Yes
National Accounts		Yes	No
Collection of Data from Other Inst.	Yes	Yes	No

4.4.3 Assessment of the Strengths and Weaknesses of the Statistical Agencies

Table X2 provides a summary of the assessment of the strengths and weaknesses of the three statistics agencies. The main weaknesses are in the design of the data systems, including using methods that ensure high quality data, training of IT staff, and research analysis of the data. For the most part, these weaknesses are the result of a lack of systematic training in these areas. Previous training has often been in the form of seminars outside of Bosnia and Herzegovina or in coordination with short missions in-country without follow-up. Data collection and, especially, analysis is a longer-term project that requires constant practice to become proficient.

Table X2 -- Assessment of Strengths and Weaknesses of the System of Statistics Agencies

	Statistics Agency RS	Statistics Agency Federation BiH	Statistics Agency State-Level
Design of Own Agenda	Limited by Funding	Limited by Funding	Agenda is to Harmonize Data, coordinate State-wide projects
Detailed HH or Firm Surveys:			
Survey and Sample Design	Limited	Limited	Limited
Survey Implementation	Good	Good	Not Responsible
Data entry and processing	Good	Good	Not Responsible
Data Analysis	None	None	Limited
Snapshot Surveys of Firms:			
Sample Design	Limited because Business Register is not up-to-date	Good	Needs to Harmonize
Survey Implementation	Implemented by hiring students or others, and training them.	Implemented by hiring students or others, and training them.	Still needs to harmonize data collected
Reliability of Data	Poor	Poor	Needs to provide methodologies to improve data quality
Analysis of Data	None other than table of employment and average wage by sector	None other than table of employment and average wage by sector	None
Resources:			
Personnel	Limited Training, Best people leave	Limited Training, Best people leave	Some capable staff, limited number
IT Resources	Probably sufficient for current ability	Should have computer lab	Limited
IT Human Resources	Could use significant training	Could use significant training	Could use significant training

One of the most pressing weaknesses of the systems in both Entities is the absence of a reliable count of households upon which a reliable sampling strategy can be designed. It is not necessary to wait until a census is undertaken to update the household count. The key issue here is to have a fairly close count of the households in each of the main enumeration units used by the Statistical Agencies. That way

there is an accurate way to determine how many households in the population are represented by each household in the sample.

Approach 1 (*less costly*) -- Divide up the country into municipalities, define the boundaries, and have a local person count how many households exist within the boundaries of the map. This would not be the preferred method in any situation, but especially not when so much has changed in both Entities.

Approach 2 (*more costly*) -- A “quick count” involves using a map, visually identifying all structures, and marking the structures on the map, noting whether or not the structure is occupied. Such a quick count would usually also involve knocking on the door and asking how many households and members live in the particular property. This is not an official census and there is likely to be an undercount of certain types of households (those off the beaten path, for example). However, such a quick count can be timed to take advantage of seasonal surveyors such as teachers out of school or college students out of session in order to reduce the cost of the program.

4.4.4 Coordination with other Donors and Institutions

Each of the Agencies is involved with the EU CARDS project and has received assistance from EUROSTAT. In the past, programs have been provided so that staff from Bosnia and Herzegovina were able to participate in EUROSTAT training sessions. In addition, the ILO has provided more limited assistance.

The next EUROSTAT training programs related to the labor market will be focused on developing labor market indicators as part of a general project for South East Europe and won't be specifically related to Bosnia and Herzegovina. Since this is likely to be training in a short seminar without significant follow-up, there will be a pressing need for another institution to provide the follow-up in this critical area of labor market statistics.

4.5 Technical Assistance Proposals

For the foreseeable future, data will be collected at the level of the Entity through the Entity-level statistical offices. Therefore, efforts at improving the quality and relevance of the data collected must be oriented towards both the State-level Agency and the Entity-level Agencies. It will likely prove to be the case that the best way to ensure that the State-level Agency can fulfill its role in the harmonization of the data collection and the promotion of improvements in data quality will be to provide training in these methods to the Entity-level Agencies. Most naturally, this would involve Technical Advisors in each of the three Agencies – with the TA teams coordinating between the three Agencies.

Component	Tasks	LOE (months)	TA Resource
Ministry of Labor: Develop strategic labor market and employment policies.	<p>Influence policy-makers; Build capacity for labor market policy-making and strategic planning. Review existing labor legislation; Removal of labor market protections that impede formal employment growth and growth of SME sector; Research potential for statutory minimum wage, including researching the impact on government budget, social safety net and labor market dynamics; Build capacity to:</p> <ul style="list-style-type: none"> ▪ establish a database of demand and supply factors in the labor market, ▪ monitor employment-related activities of firms; <p>Produce regular analyses of labor market developments, including legislation, collective bargaining and labor relations; Develop employment strategy with special focus on equipping the labor force with appropriate skills and supporting the growth of SME sector employment; Develop systemic links with the Statistics Agencies to obtain and analyze data on wages, skill trends, recruitment/redundancy, and compliance.</p>	24	2 Labor Policy Analysts/Economists
Build capacity in Entity EcoSocs	<p>Strengthen role and influence of EcoSoc; Equip EcoSoc to research and develop private-sector oriented employment policy; Strengthen inter-Entity EcoSoc co-operation with objective of harmonizing labor policies.</p>	8	2 Labor Market Experts – with expertise in tri-partite institution building.
Build capacity in RS Employment Institute and FBiH Cantonal Employment Bureaus	<p>Diagnostics of the local labor markets; Monitor skill requirements and forecast skill needs; Support design of training programs to meet skill shortages in local labor market; Organize non-governmental funding for a portion of this training. * = proposed that 3 Cantons be selected as pilots for this TA.</p>	8*	2 Labor Market Economists / Researchers.

Build capacity in Entity-Level Statistics Agencies	<p>Technical Assistance/capacity building in Sample Design.</p> <p>Develop systematic production of data and reports necessary for understanding labor market and Small and Medium Enterprises;</p> <p>Support in up-dating of a household count (in coordination with State Agency);</p> <p>Design and implementation of Snapshot Survey of firms to capture basic labor market indicators;</p> <p>Training of IT personnel in utilizing and customizing (if needed for local usage) proprietary statistical software packages¹⁵;</p> <p>Capacity building among researchers in analysis of data to produce regular Entity-level reports (not just tables) based on data collected by the Entity-level agencies;</p> <p>Co-ordinate with TA in the Labor Ministries to define data requirements for policy review and formulation, and to implement systematic data transfer.</p>	6	2 Labor Market Statistician/Research Experts
Build capacity in State-Level Statistics Agency	<p>Technical Assistance/Capacity Building in Sample Design</p> <p>Support in up-dating of a household count (in coordination with Entity Agencies);</p> <p>Training of IT personnel in utilizing and customizing (if needed for local usage) proprietary statistical software packages¹⁶;</p> <p>Capacity building among researchers in analysis of data to produce regular State-level reports (not just tables) based on data collected by the Entity-level agencies;</p> <p>Co-ordinate with State-level Labor and Employment Agency, and with State-level Ministry of Civil Affairs, to define data requirements for State level policy review and formulation, and to implement systematic data transfer.</p>	4	1 Labor Market Statistician/Research Expert
TOTAL TA LOE:		50 Months	

Potential further USAID support:

¹⁵ Training in the use of SPSS, STATA, or SAS to process and analyze the data is a particular weakness of all of the Statistical Agencies. These agencies should be doing more with the data than just providing a set of tables. The statistical packages are not that difficult to learn, but the problem is that they can only be learned through practice. Seminars seem to be the way training is provided, but are not that useful since there is not much follow-up.

¹⁶ See 15 above.

1. Project to conduct a “quick-count” of households (and the number of members of each household).
2. Project to update cartography necessary for design of statistical sample.

4.6 Impact of Proposed Technical Assistance

The proposed TA will bring about significant improvements in the capacity for research, data collection, analysis and policy making in both Entities' Ministries of Labor. The role and capacity of the Economic and Social Councils will also have been strengthened. The EcoSocs will have more input, based on solid and realistic policy proposals, into the Government's strategic policy making system. Labor legislation will have been reviewed and amended to take account of the developing private sector (mainly SME) requirements.

The Entities' Ministries of Labor, with the collaboration of the EcoSocs, will draft Employment Strategies to bring about necessary change in labor market practices and set out the Governments' action plan for:

- improving the climate for job creation,
- expanding the formal labor market, and
- increasing the stock of workers with appropriate skills.

State and Entity-level Statistical Agencies will be strengthened and will have the capacity to collect and objectively analyze key labor market data – thereby enriching the policy-making environment. The outputs from this analysis work will enable the Governments to target scarce resources to where they can be most effective, as well as to shape wage policy and anticipate labor force trends.

Inter-Entity harmonization of labor market policies will also be brought closer due to the access to quality data by the State Agency for Labor and Employment, and the State-level Ministry of Civil Affairs. At the Canton level in FBiH, there will be extra capacity to develop targeted training that is responsive to local skill requirements.

5. Flexibility, Collective Bargaining and Dispute Resolution

5.1 Flexibility

5.1.1 Overview of Main Issues

The main issues related to flexibility in the labor markets of each Entity stem from the legacy of a command economy philosophy amongst policymakers, employers and employees. This is reflected in the labor laws and collective agreements that govern employment conditions and wage bargaining. These problems are compounded by the aftermath of the conflict, collapse of many industries that might attract workers from other locations, fiscal and administrative barriers to formal employment, lack of effective compliance and enforcement, high wage reservation rate, restrictions on the length of time that temporary work contracts can apply¹⁷, and restricted access to unemployment benefits for workers who are laid-off for temporary periods.

In a market economy, enterprises will pay wages that reflect productivity (based on experience, skill, etc.) and the competitive environment. The State does not need to determine what the appropriate wages should be (though the State does have a valid role in promoting and protecting minimum living standards, and the State could utilize a minimum wage in that context – so as to provide an income floor to secure workers against exploitation). This would be a significant change in existing BiH labor market philosophy. When there is a shortage of a particular type of worker (by geography, skill, etc.) then wages for such new employees will be bid up. When there is a surplus, wages for employees will be bid down. These changes in wages induce workers to move between jobs and locations, and to update their skill levels. At present, the costs to changing geographical location or updating skills in BiH are too high relative to the economic incentive to make these changes. The requirement to have workbooks also presents some restriction on changing jobs (though for a minority of workers, mainly in non-operative defunct SOEs). The present workbook system requires that workers have only one workbook and that the workbook must be held by the employer during the period of employment. Furthermore, there is a requirement that wages and contributions must have been paid up-to-date before a workbook can be released to the worker. In such a context, it is not possible (though it is permitted by legislation) for workers to have two formal employments at the same time, nor is it possible for workers whose employer has not fully paid wages and contributions to have their workbook returned to them, thereby enabling them to take up another formal employment.

With regard to geographical mobility the following are the main issues:

- a) The mis-match between workers and jobs following the decline of the SOEs;
- b) The relocation of workers between 1992 and 1996;
- c) The relative attractiveness of international migration compared to internal migration.

¹⁷ See Article 136 of FBiH Labor Law
Final Report
Labor Mobility Assessment
April 2005

Whilst protections against unjust redundancy must be enforced in a way that has not previously been necessary, there are several concepts that seem to persist in BiH but which are not relevant in a flexible labor market:

- lifetime employment
- job priority given to “primary” earner in a household (usually male).

Collective Agreements (CAs) presently apply to all employments in each Entity. However, in the interests of economic reality, equity and flexibility, CAs should be applied only to the workers (enterprise union, sectoral union, umbrella union) that are covered by the union and the firm represented in the CA negotiation.

Reductions in government bureaucracy can significantly reduce direct and indirect costs to firms. At present, inefficiency in government tax and social contributions collection and enforcement measures are amongst the main contributor to increased costs to firms, not the level of tax or contribution levels, fees, etc.

The issue of undeclared work¹⁸ is also related to flexibility, as it undermines the sustainability of the pension and health funds. Lack of confidence in the ability of the pension or health systems to provide the benefits that are promised induces both workers and firms to make illegal contracts that favor current salary over contributions to the funds. In a functioning market economy, there would be a range of options in the labor market and evidence of sorting between workers, firms and jobs offering different combinations of current salary and benefits. In BiH, the only way to get the flexibility implied in such sorting is through the introduction of undeclared work contracts. But because the social insurance systems are PAYGO, any reduction in current contributions increases the probability that a worker will not receive anticipated benefits in the future, thereby inducing more workers to opt for illegal contracts.

All institutional authority rests in the Entities. Within FBiH, institutional authority on many issues (job matching, training, enforcement) lies at the level of the Cantons. Without changes that are far beyond USAID’s control, this pattern of institutional authority is not likely to change. As a result, investment in the capacity of the State-level institutions would have to be designed to anticipate uncertain political changes and are therefore not likely to have much short-run impact.

Finally, notwithstanding all of the issues set out above, the issue of flexibility is diminished in importance as long as there is significant job destruction (from the bankruptcy of the SOEs) and little job creation. Until there is job creation, flexibility is necessarily only a reshuffling of employees between jobs.

5.1.2 Consideration of Other Factors

There are other legislative, institutional and environmental factors that impact on labor flexibility, which need to be taken into account in shaping future policy, and which will influence Technical Assistance support. For example:

¹⁸ Undeclared work includes non-registered work contracts and/or under-declared wages.

- Economic growth – labor market policy is only one component in general economic policy and is dependent on fiscal, monetary, educational and industrial policies;
- Need to de-couple public and private sector in General and Sector-level Collective Agreements
- Development of skill-specific training – increased competition in provision of specific skills
- Placement of graduates – to ensure experienced stock of future industry-specialists, managers and policy-makers.
- Lack of employment policy in either Entity
- Lack of data
- Lack of capability for research related to labor market
- International mobility is easier than regional mobility
- Returnee issues not complete,
- Housing and other direct costs of moving location
- Inadequate education system – vis-à-vis skills and knowledge required in a market economy
- Elimination of Workbook – key long-term problem, though not as important in the short-term, given the low level of job creation/job opportunities.

There are also a few other issues that have been reviewed and which are not considered as relevant with regard to labor flexibility:

- Is there an urgent problem with employment of young workers? *The problem is that there is insufficient demand for all workers, and older workers are in the “lifetime” jobs.*
- Are maternity benefits over-generous and presenting a barrier to female employment? *Maternity benefits in both Entities are not significantly out of line with other transition countries See Annex E.*
- Are unemployment benefits too generous and therefore discouraging unemployed workers from seeking formal employment? *Unemployment benefits are of short duration, require recent employment history and benefit amounts are low.*

5.1.3 Steps to Encourage Flexibility

The most important policies related to flexibility in the labor market and the promotion of SME development, are policies that promote economic growth and a good investment climate¹⁹. These matters are not confined to the remit of the Entities’ Ministries of Labor, Cantonal Employment Services or Economic and Social Councils. However, there are measures – policy and operational - that can be taken to support labor flexibility and ready the employment environment for the time when economic growth occurs. These measures should include:

- Eliminate Work Book system.

¹⁹ The fact that the base for calculation of taxes and contributions are inconsistent between the Entities - FBiH uses *gross* pay and RS uses *net* pay - doesn’t help persuade investors. At face value it appears that the total payroll taxes in RS are higher than they really are. At present, payroll costs are publicized as 40.79% FBiH and 52% RS (indicating that payroll taxes **are higher** in RS than FBiH), whereas if presented as a % of *total labor cost* they are 40.79% and 34.21% respectively (indicating that payroll tax is actually **lower** in RS than FBiH).

- Change in philosophy to make the transition from State-planned labor market to a market-oriented labor market.
- Eliminate General Collective Agreement in favor of Sectoral agreements – at least for private sector.
- De-couple public and private sector within Collective Agreements at all levels.
- Statutory protection of basic labor rights – with additional rights and benefits to be subject to negotiation at employer level.
- Separate the funding of health care premiums for unemployed persons, from administration of unemployment benefits.
- Provide basic cash benefits for workers who are temporarily laid off and separate this function within the Employment Bureaus.
- Link unemployment benefits to re-training for non-bridge SOE workers.
- Reduce employers' administrative burden related to tax administration and social funds through reform and unification of registration, contribution payment and data collection functions.
- Create culture of compliance amongst employers and employees.
- Develop a strong statistical system in the areas of the labor market and business enterprise data.
- Eliminate possibility of extending General Collective Agreement to non-participants.
- Develop ability to analyze the labor market and SME sector in Ministries of Labor, Economic and Social Councils, and the Employment Bureaus.

In addition, the measures prescribed in **Section 4** (Policy, Strategy and Data) will contribute to improving labor flexibility.

5.2 Collective Agreements

5.2.1 Background

Labor relations in both Entities are essentially governed by their Labor Laws and their binding Collective Agreements (General, Sectoral and Firm-level). The provisions of labor legislation and Collective Agreements are very similar in both Entities and therefore it is possible to analyze them together and to make recommendations that don't disturb the underlying harmony between both systems.

The existing General Collective Agreement (GCA) in FBiH was negotiated and agreed to in 2000 by the Government and the Association of Independent Trade Unions of BH. The existing GCA in RS was negotiated and agreed to in 1997 by the Government, the Chamber of Commerce and the Confederation of Trade Unions of RS. Private sector employers were not represented in these negotiations. Both Entities have contemplated new GCAs but only RS actually concluded negotiations and had a new GCA ready for signature²⁰.

The GCAs in their present form reflect a socialist 'command' approach to wage and employment condition setting. For example, pay levels and increases are largely determined by formal educational qualifications rather than performance or productivity, and increases are applied via a combination of co-efficient multipliers

²⁰ However, the Trade Union backed out at the last minute and refused to sign, instead relying on the continuance of the 1997 GCA.

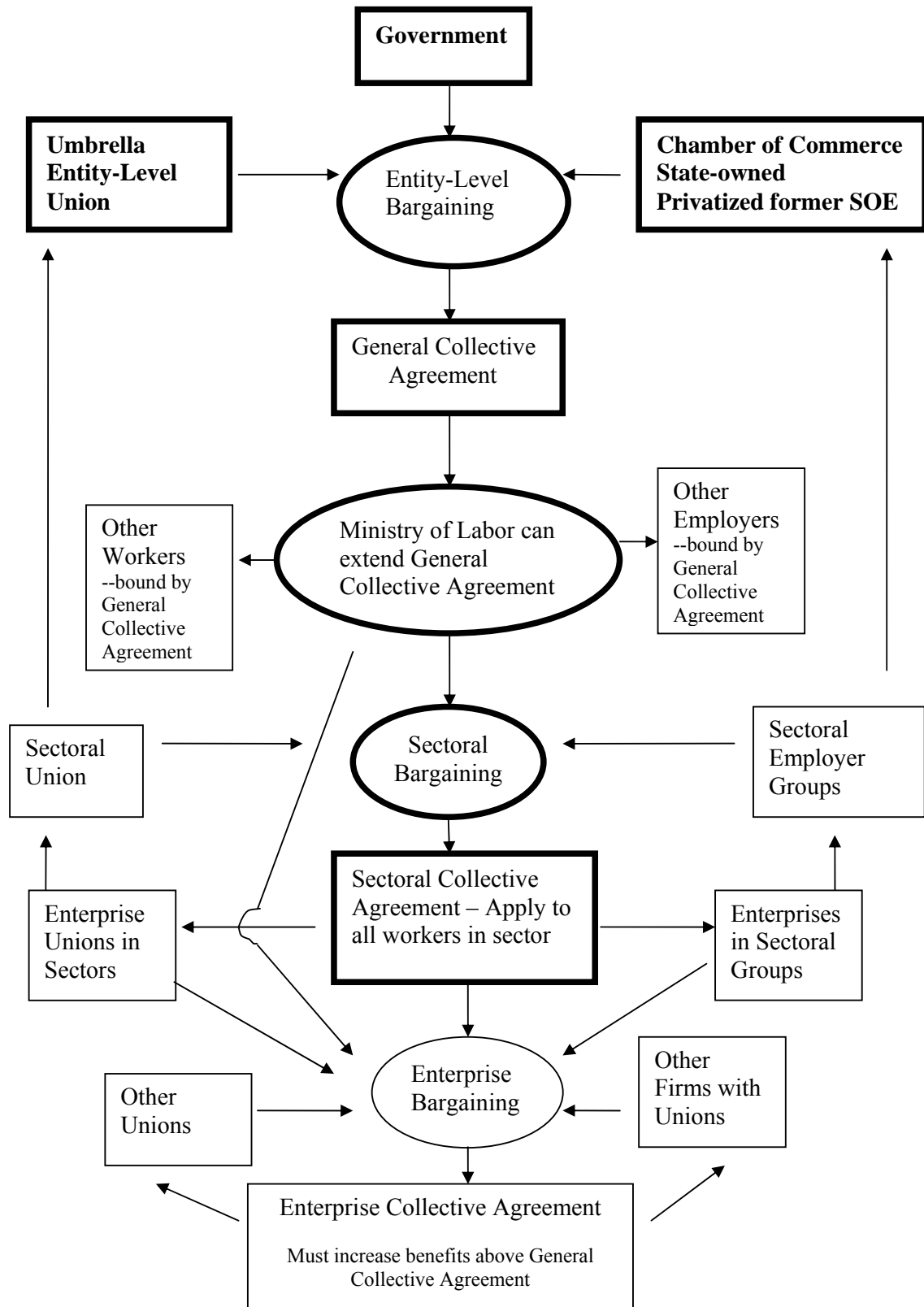
and length-of-service increments. Furthermore, employers must pay a raft of ‘fringe benefits’ including meal allowances, travel-to/from-work costs, allowance for working away from home, per diems, holiday pay and extra salary payments in the event of death or serious illness to a close relative of the employee. All of these provisions can be further improved at the Sectoral CA level, though they cannot be reduced at that or any other devolved level of bargaining. In the FBiH GCA, the wage base on which coefficients and other wage supplements (fringe benefits etc) are applied is set at a minimum of 55% of the published average FBiH salary in the previous month, whereas Sectoral CAs in the Catering and Tourism, Petrochemical Industries have increased this wage base to 60% and 65% respectively. In the Sectoral CA covering the BH Telecom Sarajevo company this wage base is increased at to 100% of the average published minimum wage.

In both FBiH and RS, the labor laws facilitate flexibility in the application of CAs to all or some employers and employees. However, both Entities’ Laws permit the Government, at their discretion, to unilaterally extend the GCAs to any or all other parties not previously covered. Because the previous GCAs were negotiated in a situation in which nearly all employed workers were in reality employed by the State, the General Collective Agreement has always been extended. Furthermore, there appears to be a presumption on the part of the main participants that any new GCA will also be extended beyond the workers and firms that are represented in the negotiation.

Both Entities’ labor laws enable establishment of tri-partite Economic and Social Councils (EcoSoc). In FBiH, the selection of EcoSoc members and their method of working is left up to the participants, whilst in RS membership selection is prescribed in the labor law. In both Entities, the EcoSocs are mandated to be involved in supporting development of collective bargaining and in generally harmonizing the interests of employers, employees and government. However, private employer representatives in both Entities are unanimous in their criticism of the lack of influence or impact by the EcoSocs. They attribute these problems to the lack of legal clarity of their roles and to the fact that they have an advisory rather than a decision-making role. Whilst they no doubt genuinely believe that legislation will fix these problems it is more likely that the present state of the EcoSocs reflect the legacy thinking of participants who are not used to setting strategic agendas or mapping out reform policies. These problems are compounded by a lack of similar initiative from the Ministries of Labor, with whom they share the same environment. Labor market and employment policy development can and should be a collaborative effort between the tri-partite partners. This is an area where Technical Assistance, by working with the tri-partite partners in identifying the main obstacles to employment growth and economic well-being, can help the partners to explore potential solutions such as how income policy/wage setting (as in present Collective Agreements) might be linked with broader economic and social policies (fiscal policy, welfare reform, public sector reform, education policy, vocational training supports, industrial peace/ no strike agreement etc). This would involve building consensus across a range of key socio-economic issues and utilizing experience gained in developed and transitional countries – so as to develop solutions that could be useful in BiH.

Current Situation – FBiH & RS

[Key elements in bold]



The key elements of the current situation are shown with the **bold lines**. The two main components of the current system are the *General Collective Agreement* and the *Sectoral Collective Agreements*.

General Collective Agreement -- The Government, the Entity-level union umbrella body, and the Chamber of Commerce (and now with one of the private employers' associations) can negotiate the General Collective Agreement. The terms of the GCA apply to all workers that the union umbrella group and employers' association claim to represent. The Ministry of Labor has the authority to extend the General Collective Agreement to all workers in the economy.

Sectoral Collective Agreements -- Following the bold items in the diagram downward, sectoral unions and sectoral employer associations can negotiate Sectoral CAs as long as the benefits in those agreements exceed the benefits defined in the GCA.

5.2.2 Critical Limitations of Present System

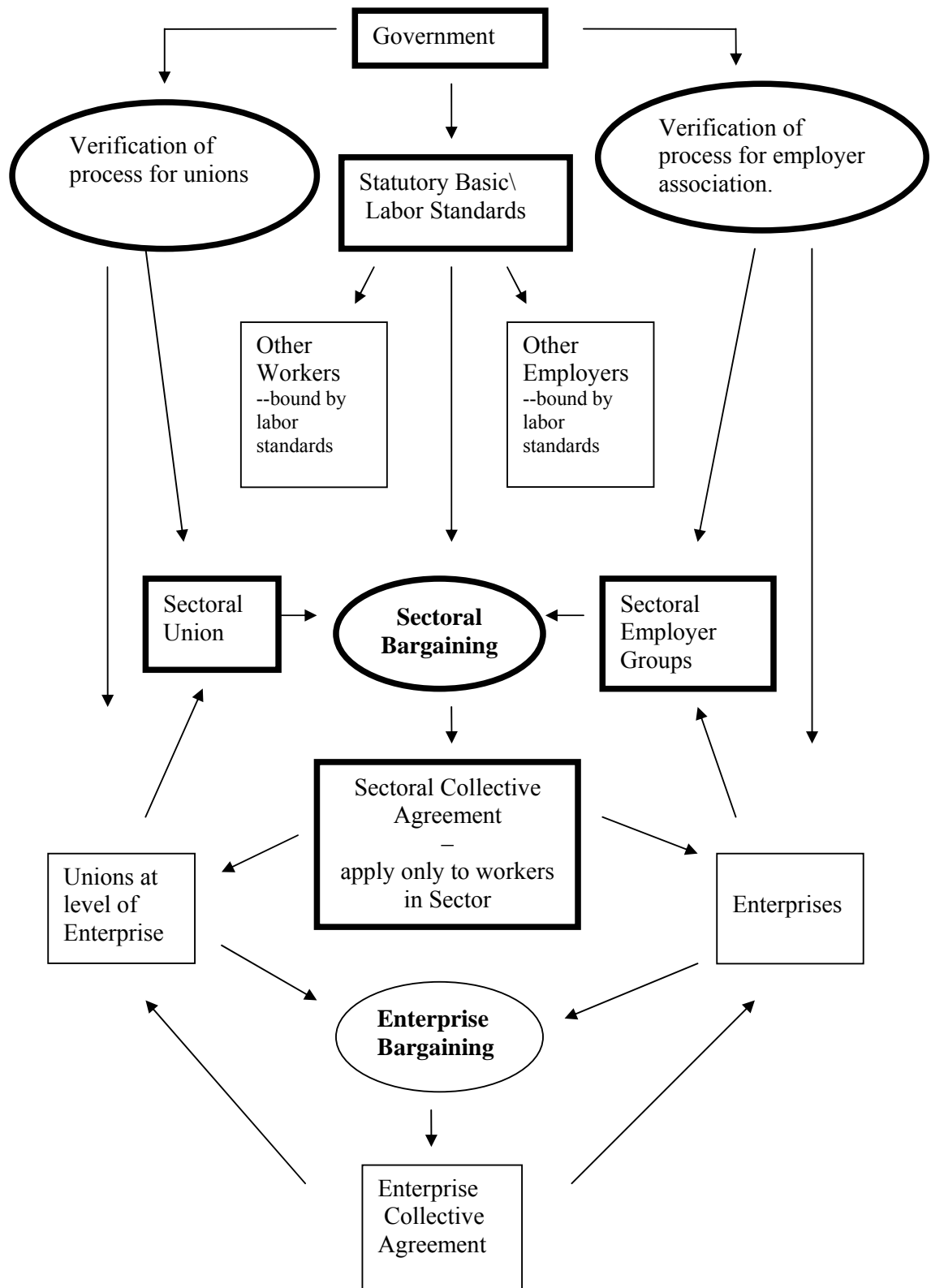
Because the current system is based on socialist labor relations, it does not address several important aspects of collective bargaining in a market economy:

- Membership of trade unions and employer associations should be clearly established in a transparent way. In a market situation, it is no longer the case that the State-sponsored union represents the interests of everyone in the labor market.
- Collective Agreements should be applied only to the trade union members and enterprises that are represented in the negotiations.
- Enterprises and workers that do not wish to engage in collective bargaining should be free not to do so.
- All workers must be protected by basic labor standards that are not part of the collective bargaining framework. These include, inter alia, the minimum wage, overtime provisions, basic safety provisions, etc.

5.2.3 New Collective Agreement Framework

The proposed framework, shown in Diagram CB 2, is based on government mandated basic labor standards and sectoral collective agreements (shown in bold). In order for this framework to be successful, there must be a process for union and employer association membership verification, as well as regular verification that the rulebooks for these groups are followed in practice.

Proposed Situation – FBiH & RS
 [Key elements in bold]



Key Modifications in Proposed Framework:

The key modifications necessary for the proposed framework to be successful are:

1. Eventual replacement of the General Collective Agreement with statutory protection of basic labor rights. This might occur in several steps:
 - ⇒ Non-extension of any General Collective Agreement to all workers by the Ministry of Labor.
 - ⇒ De-linking negotiations for public sector workers (SOE and possibly former SOEs represented by the Chambers of Commerce and the umbrella trade union) and negotiations for private employers. This de-linking would not be a final goal, but might be an initial step while other changes are taking place.
 - ⇒ Changing the laws to take basic labor protections out of the General Collective Agreement and put under the responsibility of the Ministry of Labor.
2. Clear definition of who is represented by each union and each employer association. In order for Collective Agreements to apply to those workers and enterprises who are represented (and to not apply to workers and enterprises that are not represented), there must be a process that establishes when the workers in a firm are represented by a union, when the enterprise union affiliates with a Sectoral union, and when the Sectoral union affiliates with the Entity-level umbrella union. Similarly, there must be processes that establish who is represented by the Sectoral and enterprise-level employer associations. While each of the existing trade unions has by-laws related to these issues, the Government - in the form of the Ministry of Labor and its Labor Inspectorate - must monitor these processes.
3. The processes to establish trade unions must be clearly designed to facilitate enterprise and sectoral bargaining. The current laws are deficient in two ways. First, the current law allows the formation of a union with a minimum number of workers that is too low and without a clear process for deciding how bargaining will take place when there are multiple unions within an enterprise. Second, the lack of any process of verification of who is represented by a trade union allows existing Entity-level and Sectoral-level unions to claim to represent more workers than are actually represented.
4. Strengthening of the Economic and Social Council to give voice to the Entity-level trade unions and the Entity-level employers' associations with involvement in policy-making at this level.

5.3 Dispute Resolution Mechanisms

Both Entities' labor laws set out the framework of basic employment rights, the role and responsibilities of employees, employers, trade unions and government, occupational safety and health provisions, as well as the range of offences liable to

sanction and the sanctions that are applicable. The labor laws also prescribe certain pay and working conditions that must apply but which can be (are expected to be) improved on in Collective Agreements (CA) at General (Entity-wide), Sectoral (industry-wide) and individual enterprise levels.

The labor laws cover the areas of **individual** and **collective** disputes, including collective strike action and violations of employee's employment contract. It is important to make the distinction between disputes arising from breaching rights within a contract of employment and disputes arising from more general matters such as alleged breach of CA or disagreement over organizational re-structuring proposals etc.

Individual

In both FBiH and RS, where breaches of employment contract (non-payment of full wage, refusal to allow annual leave etc) occur, the employee has a range of options: complaint to the employer, complaint to the Labor Inspector, complaint to the court or complaint to an arbitration board if it has been established by a CA. These options are not mutually exclusive and they need not be followed in sequence, though the FBiH is less clear on the latter aspect. In both Entities, the period following a violation within which the employee can file a claim is excessive – 3 years. In neither Entity is there an independent system of mediation, a cadre of specialist independent labor dispute investigators, an independent system of adjudicators on breaches of individual employee rights etc.

Overall, the system of dispute resolution, especially vis-à-vis alleged infractions of individuals' employment rights, is highly legalistic and prone to long delays that serve neither employees' nor employers' best interests. The system relies heavily on the civil and criminal courts to vindicate rights, resolve disputes and/or to impose financial sanctions²¹. The process of conciliation and arbitration – usually covering issues that affect *groups* of workers - is governed by existing labor legislation but is largely ignored.

The labor inspectorates and the employer associations are critical of the court system, in particular the time taken to resolve complaints. The courts in both Entities are backlogged and a waiting time period in excess of two years was not considered unusual. All parties said they would welcome a system that fast-tracked complaints. The trade union representatives agreed, though said they would seek assurances that employees' interests would be adequately protected.

Collective

The situation with regard to collective disputes is generally dealt with in the CAs. However, the process is not well defined and much of the methodology is left up to the conflicting parties to decide upon. Just as is the case for individual complaints, there is no independent system of mediation, no cadre of specialist independent labor mediators, no independent system of labor dispute adjudicators and no independent research cadre to develop codes of practice/research best international practice, research causes of disputes etc.

²¹ The range of punishable infractions and the associated penalties are set out in the labor law.

5.4 Technical Assistance Proposals

Component	Tasks	LOE (months)	TA Resource
Develop labor market flexibility; Reform Collective Agreement system: Ministries of Labor, Economic and Social Councils, Trade Unions, Employer Associations.	Influence and advise policy-makers and key labor and employer representatives on how to reform Collective Agreement system; Establish a system of verifying trade union and employer association representation; and enhance labor flexibility (through)	8	2 Labor Relations Negotiator/Experts These Experts will work closely with Experts assigned under Section 4 (Policy, Strategy etc)
Dispute Resolution Mechanism	Quantify scale and substance of existing problem – individual (e.g. labor contract violations) and collective disputes; Research alternative Dispute Resolution Mechanisms (e.g. a Labor Court?) and propose solution that suits both Entities; Amend labor, civil and criminal legislation to facilitate establishment of Dispute Resolution Mechanism; Draft legislation to govern new Dispute Resolution Mechanism; Develop training program for Dispute Investigators/Mediators and Adjudicators.	15	2 Labor Relations Mediators/Arbitrators 1 Labor Relations / Labor Rights Legal Expert 2 x Study Visits to examine international best practice in Dispute Resolution Mechanisms
TOTAL TA LOE:		23 Months	

5.5 Impact of Proposed Technical Assistance

The proposed TA will bring about significant improvements in the environment for labor flexibility, especially when combined with TA interventions proposed elsewhere in this report. The system of Collective Agreements will have been reformed, and the private sector will no longer be bound by, Entity-level Agreements that it has not been party to negotiating. There will be more space for private sector employers to control their own costs and tailor their employer/employee relations to suit the particular labor market conditions of that enterprise. Furthermore, there will be more transparency in establishing the representative credentials of the trade unions and the employer associations.

With regard to labor disputes – at individual²² and collective level – there will be an improved system of investigating and resolving such problems. International examples of best practice will be examined and a model suitable for both Entities will be chosen. This new system will have enhanced credibility and will have the allegiance of all parties – due to its speedy and impartial resolution of complaints and disputes, and the reduced costs to the parties involved.

²² Individual disputes comprise mainly of violations of labor contract and/or individual's rights under labor law.

6. Compliance and Enforcement

6.1 Environmental Overview

Compliance and enforcement in the labor market can be considered within two main categories: *labor* and *fiscal*. In Bosnia, the operational activities of both labor and fiscal compliance inspectorates are quite fragmented and lacking in systematic co-operation and a concerted focus. This fragmentation – especially with respect to labor issues - is more pronounced within FBiH, due to the sub-Entity layer of independent Cantonal administrations that, in turn, are also quasi-independent of each other. The fiscal control situation, whilst more centralized, suffers from competing non-wage fiscal control priorities and lack of recorded data with which the Tax Administration can effectively undertake their compliance and enforcement responsibilities.

There is widespread institutional belief in both Entities that there is a major non-compliance problem with respect to labor and fiscal duties. Labor inspectorates attribute most of the problem to the private sector, and in particular to the SMEs. They report finding many cases where workers have been denied written employment contracts and where workers' rights under labor law are violated. They find significant numbers of workers not officially on the payroll and not registered for tax or social contributions. They suspect that, in addition to non-registration of workers, there is a high level of under-reporting of wages, with resultant fiscal duties being avoided by both employer and employee. Discrimination against women – especially women of childbearing age – is also suspected but is hard to prove as there are provisions in labor legislation²³ that can be activated by employers to mask such discrimination.

Having found illegality, the labor inspectorates say it is very difficult to penalize offenders. They attribute the problem mainly to the lack of an inefficient court system and the low level of penalty applicable in some instances. They have stated that the statute of limitations often kicked-in before court cases were resolved – thereby bringing the inspection system into disrepute. Both Entity inspectorates referred to a pre-conflict court dealing only with labor violations and would welcome a return to that system.

With special regard to fiscal non-compliance it is noteworthy that there is a multiplicity of fiscal inspection responsibilities²⁴ throughout RS and FBiH. This further increases the burden on employers, particularly on SMEs. Each inspectorate has only a partial picture. Although the Tax Administration is designated as the main inspectorate for tax and social contributions, it is hampered by the non-individualization of the income tax database. Fraud is facilitated by fragmented databases, fragmentation of inspection services and lack of integrated common business processes.

The causes of non-compliant and other fraudulent activity are multiple and complex, but the following general factors also have significant influence: economic difficulties

²³ Provisions for dismissal of workers include restructuring for technical and/or economic reasons.

²⁴ In addition to the Tax Administration, the Cantonal Health Funds and the Pension Funds have legal rights to undertake inspections regarding contribution payments.

at enterprise and individual level, weakness of civil society that tolerates economic and socially damaging actions by government, lack of confidence in the social insurance system – leading to heightened short-term self-interest at the expense of long-term viability. When these factors are overlaid with weak enforcement by state institutions then high levels of wage and tax fraud must inevitably occur. Both Entities fit this model.

Improvement in compliance and enforcement related to tax payments and contributions to the social funds depends on the inclusion of the detection of unreported workers and detection of the under-reporting of salary, hours, and benefits. Whilst the inspectorates should include the detection of unregistered workers and under-reporting of salary, hours, and benefits (and the Labor Law in each of the Republika Srpska and the Federation lists these issues in the list of items for which infractions should result in penalties²⁵), at present, none of the inspectorates include these issues in a systematic way in their inspections. The inspectorate in the Republika Srpska would like to have a mechanism to check for unregistered workers by comparing the firm's internal payroll with the list of workers included in pension contributions, but this modification of the process is only in its initial stages. In the Federation, there is little effort to check for these issues.

Thus, in addition to changing enterprises from a “culture of evasion” to a “culture of compliance”, the inspectorates themselves must change from their current routine based on the strict rulebook interpretation to a broader “culture of enforcement” that will require them to be more discretionary and take into account factors not presently within their strict job description.

6.2 Current Inspection and Enforcement Practice

6.2.1 Inspection

Republika Srpska

In the Republika Srpska the responsibility for inspection across all of the territory rests with the Ministry of Labor and Veterans Protection's Labor Inspectorate. They inspect both State-owned and private sector enterprises. The following statistics from the RS labor inspectorate confirms non-registered employees to be a serious problem, but shows that inspection seems to have a positive and significant impact on compliance, and also that the number of unregistered workers uncovered is reducing though inspections are increasing. However, the growing backlog in the court system is also highlighted, with a resolution achieved in only 24% of cases filed. According to the RS inspectorate, most labor law violations occur in the private sector, as the state sector is generally compliant - at least in terms of worker registration. Hence, they concentrate their inspections in the private sector.

²⁵ In Article 150 of the Labor Law for the Republika Srpska, items 9 and 10 are related to hours and item 27 is related to salary. In Article 140 of the Labor Law for the Federation, items 11-13 are related to hours and items 41-42 are related to salary.

RS Labor Inspectorate

Year	No of Inspections	Total no of employees found	No of unregistered employees	No of employees who subsequently registered - PIO	No of cases sent to court	No of court cases solved
2001	9888	33051	5559	na	1678	na
2002	17622	41692	19244	8989	4265	898
2003	18721	86275	20923	10085	2268	779
2004	19018	83522	16190	8001	2700	952
Total	65249	244540	61916	27075	10911	2629

Federation BiH

In the Federation, responsibilities for inspections are divided between the Entity-level inspectorate (under the Entity-level Ministry of Labor and Social Policy) and the Canton-level inspectorates who are independent of the Federal Inspectorate and operate under the control of their Canton Government. The former has the responsibility for inspections in “strategic enterprises,” a list of which is published in the Official Gazette and includes the State-owned enterprises and some other larger (mostly former SOE) enterprises. The Canton-level inspectorates have responsibility for inspections of other enterprises and can coordinate inspections of the strategic enterprises if it is in the Canton’s interest.

The Federal Ministry’s labor inspectorate has been downsizing in line with the decline of the ‘strategic sector’. The fragmentation caused by dividing labor inspection between 10 Cantons is compounded by the strict enforcement of demarcation between the labor, fiscal and other inspectorates. For example, the Canton inspectorates examine the existence of employment contracts which have the agreed upon salaries, but will not check whether these salaries are above the minimum wage. The Canton inspectorates use the information from the employment contract, the contributions to the tax and social funds, and the internal system of the enterprise for enterprises with more than 15 employees, but will not check whether firms’ under-report wages to the pension fund and tax administration. In both cases, the Canton inspectorates consider that the responsibility for checking this area is defined in the Law on Tax Administration to fall with Tax Administration and, because of this, they cannot examine these areas even if they were to notify the Tax Administration (rather than attempt to enforce the law themselves). Because Tax Administration does not consider inspections in this area to be a priority and does not schedule inspections based on labor issues, these areas are *de facto* not covered in any inspections in the Federation.

In other areas, the responsibility for inspections – especially hours of work -- clearly falls with the Canton inspectorates for non-strategic firms, but the Canton inspectorates do not consider this issue to be a part of their obligation.

From interviews with selected Cantons (Sarajevo and Mostar), it is clear that they lack sufficient resources to be fully effective. Sarajevo Canton, one of the largest, has only 6 inspectors to cover 20,000 enterprises and this means inspection of all such enterprises would take an estimated 4 years to complete. They have one vehicle between them and don't have an IT system that supports their work. Furthermore, they appear to operate in relative isolation from the TA or PIO and don't systematically access those organizations' databases. They state that they found 808 unregistered workers in 2004, thus indicating a sizeable non-compliance problem.

As in many other areas of enforcement, both Entities' inspectorates tend to focus on issues defined by a rulebook. These issues are extremely limited. This is especially the case in the general labor inspections (as opposed to safety inspections), where inspections are mainly limited to checking that the legal papers of the enterprise (including salary contracts) are in order. The main issues related to compliance and enforcement of tax payments and payments to social funds are:

	Republika Srpska	Federation-level	Canton-level
Issue			
<i>Verification of legal documents of firm</i>	Yes	Yes	Yes
<i>Detecting Workers that are not Registered</i>	Yes	No, though the inspectors did not indicate that such infractions could not be noted.	Yes, warning issued. Firm responsible to show that worker has been registered. No follow-up after that.
<i>Detecting Workers whose reported wages are lower than their actual wages</i>	Yes, but this is claimed to be responsibility of Tax Administration.	No. This is claimed to be responsibility of Tax Administration.	No. This is claimed to be responsibility of Tax Administration.
<i>Detecting Firms that are not registered</i>	Only if it is a bi-product of another inspection. Such cases are referred to the Ministry of Trade.	Only if it is a bi-product of another inspection. Such cases are referred to the Ministry of Trade.	Only if it is a bi-product of another inspection. Such cases are referred to the Ministry of Trade
<i>Verification of compliance with other clauses of Labor Law</i>	Only if there is a complaint	Only if there is a complaint	Only if there is a complaint
<i>Verification of compliance with Collective Agreement</i>	No	No	No
<i>Union process</i>	No	No	No
<i>Computerization of Results of Inspections</i>	Some, though many important elements such as infractions noted are not included	No	No
<i>Follow-up inspections in previous violators</i>	No	No	No

<i>Identification of problem sectors from previous violations</i>	No	No	No
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Businesses that are not legal entities have even less incentive to comply. The labor inspectorates have no authority to inspect residences (and any business that is unregistered within them). If a firm refuses to provide identifying information, the inspectorate must return with the police, and continued refusal of the business to identify itself violates the law related to the police (not the inspectorate).

6.2.2 Enforcement

Enforcement is roughly similar in RS and the Federation. The Labor Law specifies fairly significant penalties for each minor infraction.²⁶ Yet, the combination of lack of enforcement by the inspectorate and lack of confidence in the court system leads the penalties to not have much bite.

The inspectorates issue orders to rectify infractions. It is up to the employer to show that the infraction has been eliminated. If the employer does not do so within a specified number of days, the inspectorate can file misdemeanor charges against the firm. Since there is no follow-up inspection, the firm is under no obligation to make any changes (such as registering workers) as permanent.

Enforcement by the tax administration also includes the ability to impound bank accounts and the ability to shut firms down. However, tax administration does not consider enforcement of proper salary payments or hours recorded to be high priorities in its inspections, focusing instead on large taxpayer compliance. Similarly, the trade inspectorate (in RS) has the ability to shut a firm down that is not registered with the court for a period of time, but would not do so if a firm does not report workers.

Only the inspectorate in the Republika Srpska has computerized records related to inspections. Even in RS, though, there is no record of the detailed result of the inspection, the infractions that were noted, or any follow-up. In the Federation, all records are kept in the inspectors' log book, which is the official document related to the findings of the inspections.

6.3 Effects of Compliance on Tax Revenues and Social Contributions

From the perspective of tax administration and the social funds, the most relevant element of the labor issues is the total revenues generated by the employer and employee taxes based on wages. These revenues are calculated as a percentage of

²⁶ In the Republika Srpska, the stipulated penalties for first infraction are: 1,000 KM to 10,000 KM for legal entities; 200 KM to 800 KM physical persons; and 100 KM to 500 KM Responsible Person with employer in legal entity. In the Federation, the stipulated penalties for first infractions are: 1,000 KM to 10,000 KM for legal entities; 500 KM to 2,500 KM for a natural person; and 200 KM to 1,000 KM for the responsible person with employer in legal entity. In both Entities, the penalties are doubled for violations against minors.

reported wages. In this area, compliance can be reduced to the reporting of all workers to the tax administration, the reporting of all wages of those workers, and the actual payment of taxes and contributions that are owed.

$$\text{Revenues} = \left\{ \begin{array}{l} \text{tax and} \\ \text{contribution} \\ \text{rate} \end{array} \right\} * \begin{array}{l} \text{Number of} \\ \text{Workers} \end{array} * \begin{array}{l} \text{[average + average]} \\ \text{[salary benefit]} \end{array} \left\{ \right\} * \begin{array}{l} \text{percent of} \\ \text{workers in firms} \\ \text{paying on time} \end{array}$$

Lost in much of the discussion of compliance and enforcement is that the most important determinant of the revenues from tax administration or the contributions to the social funds is the overall growth in the economy. Forcing greater compliance (say by enforcing more severe penalties) in a situation where the economic base does not increase is likely to further reduce economic activity below its already low level. Revenue shortfalls based on current law can occur due to any one of the elements in the above equation.

6.3.1 Tax and Contribution Rate

Lack of fiscal incentive to participate in formal economy is also a factor (or at least an excuse) in encouraging fraud. It has to be the case that lowering the level of taxes improves the profitability of firms. In most cases, though, lowering taxes also lowers tax revenues and contributions to the social funds (as long as the incentive to economic activity does not lead to an expansion of the tax base). Thus, reducing tax rates reduces the solvency of the government and the social funds.

There are no estimates (and no data) of the responsiveness of economic activity to changes in the tax rates in Bosnia and Herzegovina that allow us to assess how important this effect actually is. The most relevant information, then, is whether the tax and contribution rates in Bosnia and Herzegovina are inordinately high compared to other countries. When calculated in a comparable way, the rates for Bosnia and Herzegovina are toward the high end for transition countries, but are not unusually high (*see Annex F*).

6.3.2 Number of Workers Reported

Information on how important under-reporting of workers by firms (or non-registration of firms) comes from two main sources. The first is the detection of such workers through the labor inspectorates themselves. The inspectorate in the Republika Srpska indicated that approximately 20 % of the workers that it checked in its inspections were not listed on the filings for tax administration and pension. Similarly, the inspectorate in the Canton of Sarajevo indicated that it found 808 unregistered workers in 2004.

6.3.3 Average Salary Paid for Workers Reported

There is even less evidence on the amount by which employers under-report wages, because none of the inspectorates compare *actual* wages paid against *reported* wages. Much of the available evidence suggests that it is perhaps not the case that the minimum wage is reported for most workers.²⁷

²⁷ There is some evidence in the data from the Living Standard Measurement Survey (and reported in the World Bank 2002 study) that the distribution of work income shows that there are unusually few workers at incomes just above the minimum wage in the Federation. The main plausible explanation

6.3.4 Average Benefit Paid

Firms do not report the monetary amount of benefits in the total upon which they pay taxes, even though they are required to do so. Non-taxed fringe benefits have a monetary value and they should be noted, even if they aren't taxed. Either the law should be changed or this element should be enforced. In fact, the range of non-taxed benefits set out in Collective Agreements (standing meal allowance, travel allowance etc – excluding meals and travel for periodic specific work-related matters) is considered excessive and should be brought unambiguously within the income tax net.

6.3.5 Timely Tax and Contributions Payments

There is some information on “waitlisted workers” (listed as employed, but not working and not having tax or benefit contributions paid) from the monthly snapshot survey of firms conducted by the Statistics Institutes and from the Living Standards Measurement Survey.²⁸ In the Federation, the Statistics Agency compares listed and actual employment in its monthly survey. Based on this data, they calculated the number of waitlisted workers. For December 2001, the number of waitlisted workers was 31,966. By December 2002, the number had fallen to about 25,000. The current level depends on how many of those 25,000 workers no longer are waitlisted and how many new workers have entered waitlisted status through reduced profitability of the State-Owned Enterprises.²⁹

In the short-run, the main vehicles for improvements in compliance and enforcement could be: improve tax collections by increasing the number of workers registered and force firms to report benefits when paying taxes and contributions.

6.4 Existing Initiatives to Improve Compliance

Federation BiH

We have not identified any initiatives to expand the responsibilities of either the Federation labor inspectorate or the two Canton labor inspectorates that we visited. It is clear that these inspectorates are not self-motivated to change their practices and will, if left alone, continue to do inspections that cover only the legal documents of the firm.

Republika Srpska

The Labor Inspectorate in the Republika Srpska – mainly as the result of the initiative of the Director – has attempted to expand the content of its inspections, to use technology to conduct its inspections, and to use technology to maintain its records. The main emphasis of this initiative has been the use of the records from tax

for this is under-reporting of wages (but with the under-reporting being perpetuated by the worker to the interviewer of the household survey).

²⁸ One of the possible responses in the LSMS (for 2001) when workers who have a job but are not working are asked why they are not working is “being waitlisted.” In the survey, there are 8,800 such persons in the Federation and 25,900 in the Republika Srpska.

²⁹ A final piece of evidence is the number used in the World Bank calculations of the possible number of workers that might take advantage of the offer to eliminate the waitlist status. They claim that there are 35,000 such workers, including 20,000 in the Federation and 15,000 in the Republika Srpska. These estimates were made by the entity-level unions without any corroborating evidence.

administration and pension fund to cross-check information on employees and salaries paid in the firm that is being inspected. At present, the inspectorate receives information in document form from tax administration and pension on the individuals in the firm (from the annual filings). During the inspection, the inspector cross-checks that every worker listed on the tax/pension form is up-to-date in the firm. The inspectorate also takes information on each worker present in the firm on the day of the inspection and checks that information against the tax/pension records.

However, notwithstanding the problems, some progress is being made. The RS inspectorate – which is directly managed by a Ministry³⁰ - is equipped with an IT system linked to the PIO Fund and regularly updated with a subset of the TAD database. They developed the system in-house in 2004 and it enables them to improve effectiveness, use better quality data and track the results of their inspections. They said they would welcome support from the international community as they presently had no external expertise or other resources available to them.

6.5 International Comparison

Bosnia is not unique amongst transition economies in having a high level of undeclared work or under-reported income. Indeed, the following table from an EU report published in May 2004³¹ shows that many of the transition economies that recently joined the EU, and which have over-protective labor laws and rigid labor policies, also have the highest level of shadow economy/undeclared work. Conversely, it shows that economies with more liberal labor regimes have lower levels of undeclared work³². A key feature of this EU report is that undeclared work is most prevalent in professional services, hotel and catering, construction and tourism-related industries, and least prevalent in manufacturing. This has particular relevance for Bosnia, given that manufacturing is in decline and these sectors would be expected to grow and would include a proportionately higher number of SMEs. In addition, the EU has adopted a Resolution³³ on undeclared work and which encourages the social partners in Member States to become actively involved in developing measures to prevent and detect undeclared work. This indicates that involving the Entity EcoSocs in this matter would be beneficial and consistent with EU policy.

New/planned Member States

Existing Member States – pre 5/2004

Country	% of GDP	Country	% of GDP	Country	% of GDP	Country	% of GDP
Lithuania	15-19	Bulgaria	22-30	Austria	1.5	Germany	6
Poland	14	Czech	9-10	Belgium	3	Greece	20+
Romania	21	Estonia	8-9	Denmark	5.5	Italy	17
Slovak	13-15	Hungary	18	Finland	4.2	Netherlands	2

³⁰ Ministry of Labor and Veterans Protection-RS

³¹ Source: European Commission - Directorate-General for Employment and Social Affairs, May 2004
‘Undeclared work in an enlarged Union’ *An Analysis of Undeclared Work: An In-Depth Study of Specific Items* (Renooy, Ivarsson, van der Wusten-Gritsai, Meijer)

³² Undeclared work includes un-registered workers and under-reported wages.

³³ EU0311206F-Oct 2003

Slovenia	17	Latvia	18	France	6.5	Portugal	5
				UK	2	Sweden	3

6.6 Further Corrective Measures to Improve Compliance

How can the non-compliance problem be remedied? It will take time and will be very difficult fix. It seems that Bosnian society is presently accepting of such fraud, or at least indifferent to it. There is even a view that some inspectorates are less than honest and know well how to ‘rent-seek’ from vulnerable employers, or are willing to ignore certain abuses if the price is right. However, not surprisingly, the Team could not find any hard evidence of such practices.

However, the Team did detect a view by the main institutional actors, legitimate employers and trade union representatives, that action is now needed, albeit with little evidence of a concerted approach being developed. For example, there is presently no Entity-level strategy to combat undeclared work in either RS or FBiH. Such a strategy should be developed and should guide all the strands of action necessary to make a positive impact. The EU advises the participation of the social partners in this area. In this context, the existing EcoSocs in Bosnia could be considered for a role. They could examine international best practice and help formulate a strategy for adoption by Entity (and Cantonal) Governments. In particular, they could begin by developing a coordinated educational strategy linked to a targeted labor and fiscal inspection campaign. This is where a fast track system of prosecution is needed – to lend weight to the process.

Involving the EcoSocs will also influence the stance of inspectorates (especially labor) and help deter inappropriate inspectorate behavior. This will not be easy, as the existing EcoSocs are perceived by the private sector employer and the trade union representatives as weak and having limited powers. However, this matter is so important that they should be encouraged to grasp the chance to influence compliance and enforcement policy and deter the Government from adopting counter-productive policies.³⁴ In this context they could also develop codes of practice for use by inspectors and be involved in monitoring alleged breaches of these codes.

Finally, the matter of fiscal policy in relation to stimulating formal employment growth needs to be examined. The present high rate of social contributions is a stimulus for fraud by employers and employees. Consideration should be given to incentivizing employers to formalize existing employment and even adding new workers to their payroll. For example, give an ‘income tax holiday’ to **employers**³⁵

³⁴ The Team heard – informally – that the RS Government was planning to adopt a control policy whereby all commercial bank accounts would be registered in the Central Bank, who would then enforce the ‘blockade’ system whereby bank accounts of fiscal debtors would be frozen. This measure is a throwback to the former FRY system, e.g. ZPP, and could reduce bank deposits and bank cash flow as there would be added incentive to pay cash for goods and services.

³⁵ Reducing the amount of income tax payable by employees – thereby effectively reducing the amount of tax and social contributions due to be paid over by employers.

who add employees to their payroll and maintain such increased employment levels for at least 1 year.

6.6.1 Fostering a compliance culture

The main issue related to the payments of taxes and contributions to the social funds is the creation of a “culture of compliance.” At present, there are several reasons why there is not such a culture:

- 1) It is well-known that enforcement of current laws is weak. Violators are unlikely to be caught, the penalties are usually not enforced, and, in the cases where there is enforcement, challenges in the court system can last years.
- 2) Inspections cover only a small number of issues and are divided between at least three different inspectorates (Ministry of Labor, Tax Administration, Ministry of Trade and Commerce)
- 3) Reports to the Social Funds and Tax Administration are not checked for consistency of the workers reported, the salaries paid, and the obligations of the firms. This work should be undertaken by the fiscal and labor inspectorates, as well as by systematic cross-checking of TAD and Social Fund databases. This problem would be greatly reduced in an integrated registration and collection system – as proposed in Section 3 of this report.
- 4) As a result of the weak enforcement, the expected benefit of evasion is high.
- 5) There are reasons to stay outside the contribution system aside from pure contribution evasion. When there is lack of confidence in the ability of the pension system to remain solvent or in the ability of the health insurance system to provide services, it may be in the interests of workers as well as the firms to provide a higher wage to the worker without paying any contributions (or paying reduced contributions). The costs to the firm are lower if the wage offered to the worker is lower than the combined wage and contributions and the worker gets the preferred combination of current wages and benefits.
- 6) During our analysis we concluded that quality standards in the inspectorates need to be improved and that there are alternatives to compliance.

The most important element of a successful program for improving compliance and enforcement is the integrity of the inspectorate itself. This issue is beyond the scope of our mission, but without improvements in the integrity of the inspectorate, there is little possibility for reaching a “culture of compliance.”

6.6.2 Improving Labor Inspectorate effectiveness

Assuming that the integrity of the inspectorate can be improved, the issues that should be addressed in labor inspections to determine compliance with the law include:

- 1) Verification of legal requirements of the enterprise, including documents related to registration of the firm and verification of employment contracts for all workers. In the FBiH, this would be facilitated greatly by an amendment to the labor law that

requires ALL contracts of employment to be in writing. Currently, verification of the presence of workbooks for all workers would fall into this category.

- 2) Verification of compliance with minimum labor requirements including minimum wage and overtime hours.
- 3) Verification that the firm is reporting all workers for the full time that they work
- 4) Verification that the firm is reporting the full salary of those who are registered
- 5) Verification that the firm complies with health and safety standards
- 6) Verification that the firm complies with other standards, including payment for maternity leave.
- 7) Identification of firms that are not registered and do not pay taxes of any type
- 8) Verification of compliance with collective bargaining agreements in force at firm.
- 9) Verification that the union in the enterprise has followed procedures for the election of officials and that the management of the enterprise has followed the labor law with respect to unions, in addition,
- 10) The inspectorates should note patterns in violations that suggest future inspection policy

Compliance in these areas should be enforced through a system of warnings and penalties that result in compliance.

6.7 Technical Assistance Proposals

The short-run goal of the proposal is to give those inspectorates that are able and willing to move towards better practices in the implementation of inspections the opportunity to do so. This includes only the inspectorate in the Republika Srpska. In the long-run, the proposal is based on the demonstration effect of successful implementation in Republika Srpska and the encouragement of initiative on the part of the inspectorates in the Federation.

The overall strategy proposal is a 3-strand approach:

- (i) Education
- (ii) Inspection
- (iii) Simplification

This will be achieved by the following actions:

- Strengthen Labor Inspectorate capacity to promote compliance and raise awareness of obligations
- Strengthen Labor Inspectorate capacity to target inspector resources (e.g. send teams of inspectors to a single industry, to a single city/town, to concentrate on employers with specific characteristics – high labor turnover, high number of employee complaints etc) and undertake cost/benefit analysis of activities
- Link Labor Inspectorate database(s) with Tax Administration and Pension Funds
- Integrate business processes for tax and social contribution – customer registration and customer reporting:
 - Route reporting through Tax Administration
 - Shared Data Warehouse in Tax Administration
 - Single reporting forms / Electronic forms

Component	Tasks	LOE (months)	TA Resource
Republika Srpska: Strengthen Ministry of Labor (Labor Inspectorate) capacity to improve deployment of inspection resources and increase compliance.	<p>Strengthen Labor Inspectorate capacity to promote compliance and raise awareness of obligations:</p> <ul style="list-style-type: none"> ⇒ Develop promotional material aimed at key groups within the labor market (employees, employers, enterprise associations, trade unions). This material will include: explanation of labor laws/collective agreements/sub-regulations; explanation of obligations and rights and sanctions; support for proper wage and work history record-keeping. <p>Strengthen Labor Inspectorate capacity to target resources and undertake cost/benefit analysis of activities:</p> <ul style="list-style-type: none"> ⇒ Develop existing IT system to provide management information and to analyze data and non-compliance trends. ⇒ Link Labor Inspectorate database(s) with Tax Administration and Pension Funds ⇒ Use IT to implement inspections – labor inspectorate has indicated an interest in using laptops to download data from tax and the social funds and having a system for entering information found at the time of the inspection. <p>Broaden scope of inspections and records by expanding inspection content to include:</p> <ul style="list-style-type: none"> ⇒ Verification of legal requirements of the firm, including firm registration documents and verification of employment contracts for all workers ⇒ Verification of compliance with minimum labor requirements including minimum wage and overtime hours ⇒ Verification that firm is reporting all workers for the full time that they work and the full salary they earn ⇒ Verification that the firm complies with health and safety standards ⇒ Verification that the firm complies with other labor standards, including payment for maternity leave ⇒ Identification of firms that aren't registered and don't pay taxes of any type 	10	<p>2 Labor Inspector Compliance and Enforcement Experts</p> <p>1 Media/Communication Expert</p> <p>These Experts will work closely with Experts assigned under Section 4 (Policy, Strategy etc)</p> <p>Laptops,</p> <p>Software enhancement.</p> <p>2 x Study Visits to examine international best practice in Labor Inspection</p>

<p>Support the EcoSoc to foster a culture of compliance amongst its members.</p>	<p>⇒ Verification of compliance with collective bargaining agreements</p> <p>⇒ Verification that the trade union in the enterprise has followed procedures for the election of officials and that the management of the enterprise has followed the labor law with respect to unions.</p> <p>Brief EcoSoc on extent of non-compliance problem and assist EcoSoc to develop promotional material and undertake behavior-influencing actions to foster a climate of compliance by its' members.</p> <p>Draft codes of practice for use by inspectors and be involved in monitoring alleged breaches of these codes by inspectors.</p>		
<p>Federation BiH : Strengthen Ministry of Labor (Labor Inspectorate) capacity to improve deployment of inspection resources and increase compliance.</p>	<p>Detailed study of practices in each of the 10 Cantons and the Federal Inspectorate, that includes:</p> <p>⇒ Situation in each inspectorate</p> <p>⇒ Detailed understanding of the laws related to inspections</p> <p>⇒ Identification of inspectorates that would be capable of adopting better practices</p> <p>Open competition among the 10 Cantonal inspectorates and the Federation Inspectorate to be participants in pilot project similar to that implemented in RS</p> <p>Development of consistent methods for inspections, data collection, technology used, and tracking of results across the 10 Cantonal inspectorates.</p> <p>Implementation of inspection system in each Canton</p> <p>Strengthen Labor Inspectorate capacity to promote compliance and raise awareness of obligations:</p> <p>Develop promotional material aimed at key groups within the labor market (employees, employers, enterprise associations, trade unions). This material will include: explanation of labor laws/collective agreements/sub-regulations; explanation of obligations and rights and sanctions; support for proper wage and work record history record-keeping.</p>	15	<p>2 Labor Inspector Compliance and Enforcement Experts</p> <p>1 Media/Communication Expert</p> <p>These Experts will work closely with Experts assigned under Section 4 (Policy, Strategy etc)</p> <p>Laptops,</p> <p>Software Development.</p> <p>2 x Study Visits to examine international best practice in Labor Inspection</p>

Support the EcoSoc to foster a culture of compliance amongst its members.	Brief EcoSoc on extent of non-compliance problem and assist EcoSoc to develop promotional material and undertake behavior-influencing actions to foster a climate of compliance by its members. Draft codes of practice for use by inspectors and be involved in monitoring alleged breaches of these codes by inspectors.		
TOTAL TA LOE:		25 Months	

6.8 Impact of Proposed Technical Assistance

The TA deployed within this project will have a significant effect in the following areas:

- public awareness of the importance of compliance,
- the capacity of labor inspectorates to detect non-compliance,
- reduction in the level of non-compliance,
- support of the tri-partite institutions in preventing non-compliance,
- improved targeting of scarce inspection resources,
- more added value inspections that will lead to compliance across a wider range of labor and fiscal affairs,
- some (small at first) change in the prevailing business culture, and
- harmonization of inspection systems and techniques within (Federation-Cantons) and between Entities.

Annex A

ASSESSMENT - SCOPE OF WORK

Towards an SME-friendly Labor Environment

Summary

USAID/Bosnia-Herzegovina (BiH) is interested in assessing the status of labor markets in BiH to determine what interventions would assist in easing the labor-related burdens facing SMEs. Prior to this requested assessment, its Economic Restructuring Office (ERO) has concluded an assessment of barriers in the labor market & pension system of BiH by Liz McKeon and Denise Lamaute in October, 2004, and had an FSVC volunteer, Dr. Matthew Finkin, examine the legal framework underpinning labor in BiH. Both of those reports will be furnished to the assessment team. The World Bank completed a study, "Labor Markets in Postwar Bosnia and Herzegovina," in 2002, and has launched a social insurance technical assistance project (SITAP, explained in more detail in the donor coordination section near the end) to address some or all of the recommendations in the study. The study is available from the World Bank's web site. The text that follows borrows heavily on these assessments/studies in giving a brief description of what may be needed to reduce labor-related burdens on SMEs and promote labor mobility.

Current Situation

Small and medium sized private enterprises (SMEs) are seen by many as the best hope for economic growth in Bosnia-Herzegovina (BiH). For that hope to be realized, the environment for conducting business must be one where entrepreneurs can reduce costs and realize profit. "Costs," whether expressed in money or time, result in a loss of efficiency and opportunity in a business day and therefore hinder the ability of the entrepreneur to compete in the market. This is why strategies to improve the business climate often focus on simplifying company registration and filing procedures, lowering taxation rates, gaining access to credit, and promoting transparency in regulations and fees to reduce the influence of corruption, nepotism and organized crime in the economy.

To fortify current and future economic restructuring activities, USAID'S Economic Restructuring Office (ERO) would like to know what steps might feasibly be taken to remove/reduce barriers facing SMEs in labor-related issues over the next 3-5 years. This scope of work outlines interim conclusions and highlights key objectives of the assessment.

Labor, as a cost to business, is highly variable in BiH. A legacy of strong worker protections, complex wage setting agreements, and rigid codes has made it difficult for the nascent private sector to change its labor mix flexibly. Additionally, high payroll taxes in both the FBiH and the RS raise cost structures to levels that make it difficult for entrepreneurs to compete and simultaneously remain in full compliance with the law. In order to control costs and gain flexibility, companies consequently operate entirely in the shadow economy, or retain a veneer of legitimacy by registering only a portion of their workers and calculating payroll tax obligations on fictitious minimum salaries. Private sector SMEs see little alternative if they wish to remain in business under current conditions.

It is not difficult to see how the current practice of unrecorded employment and underpayment of social taxes creates a vicious circle for the treasury of each entity. A shrinking base of "registered" workers can hardly finance the requirements of state pensions, the most costly of social programs. As a result, the dependency ratio³⁶ has fallen to a dangerous ratio of 1:1. While private sector firms share part of the blame, failing or failed State Owned Enterprises (SOEs) bear considerable responsibility for pension fund insolvency, by foregoing making contributions altogether for workers notionally retained on their payrolls.

Why do job seekers, trade unions and government bodies accept such practices? Many who in fact argue strenuously against the status quo have little recourse at present to reverse it. In an era of high unemployment (40% officially) and complicated hiring arrangements, workers are desperate to accept any conditions in order to take home a decent wage. Trade unions are bravely fighting to compel SOEs to resolve wage and pension arrears for downsized workers, but they would agree only to amounts that far exceed the capacity of the State to pay. And Compliance and Enforcement (C&E) within and between government agencies is so weak, that progress on past or current problems is achieved at a glacial pace, and often to no one's satisfaction.

¹ For the purposes of estimating pension fund solvency, the dependency ratio is the number of contributing workers to the number of pensioners. A rate of 4:1 or better is viewed as desirable both from the standpoint of keeping contribution tax rates manageable for the worker and benefit payments adequate to the retiree.

Although significant reforms are needed to make the pension fund sustainable, this report concludes that a reduction in the contribution rate is not feasible in the medium-term. Any hope of reducing contribution rates in the future rests on the successful implementation of numerous intermediate steps. One of these – assistance to restructure and consolidate the RS and FBiH systems – is beginning under the World Bank's SITAP program, which is described in the body of McKeon & Lamaute's report.

On the other hand, USAID/BiH can take steps to alleviate bottlenecks in the labor market, and therefore bring about dramatic improvements to the climate for SMEs, and setting a stage for more rational social contribution requirements in the long-run. The areas identified below for further assessment were selected with an eye to lowering costs for legitimate SMEs. They involve changes to labor market policy and practice. Their combined objective is to curtail negative and counterproductive behaviors by business, government, and labor through a combination of targeted incentives and training.

Objectives of the Assessment

Objective 1: Assess ways to rationalize extraordinarily high social contribution requirements without pension or health care reform

Cumulative social costs on labor of 52% of net wage in RS and 69% in FBiH provide an obvious incentive to business to underreport wages or hire people off the books. Particularly when combined with the poor delivery of the social funds on their obligations and the other rigidities and socialist legacies described elsewhere in this scope of work, the growth of the grey economy in BiH comes as no surprise. It is particularly important then, for the assessors to realistically scope out how, in the medium-term, we might put in reforms antecedent to pension reform. This topic touches on both compliance & enforcement, the next objective, and questions of efficiency in worker registration and the operation of the social funds.

The international community is supporting dozens of efforts to increase transparency, accuracy and efficiency in reporting wage and tax contributions. Their positive implications for the labor market are not well or widely understood. How big an impact could greater coordination between the tax authorities, the labor inspectorates and the social funds achieve?

USAID/BiH has no plan to be engaged in pension or health care reform in the foreseeable future but is seeking other ways to rationalize contribution requirements by broadening the base and/or improving accountability of the contributions collected. One way to achieve this is to be able to track individual contributions from all employment through an automated tracking system;

Allowing part-time employment while maintaining full-time employment without affecting health benefits;

Tightening up eligibility of unemployment benefits, including better management of the program by the employment agencies and possible consolidation of these agencies;

Tightening up maternity benefits in line with other countries in the region. It is difficult, from the scant data currently available, to assess whether and to what extent female labor market participation is restricted by official (theoretical) maternity benefits twice that of other Central European countries. The WB 2002 Labor Report notes that female participation in the official labor market is half that of men's, yet the LSMS indicates that it is on the rise the last two years. Therefore, the mission would appreciate the assessment team's evaluation of what dampening effect on female employment maternity benefits or other restrictions, such as those on part-time employment, might have on female participation in the labor market, and how best to remedy those.

Eliminating Workbooks and Streamlining Registration

Measures to streamline employee registration with funds will ease burdens on enterprises. Finally, a national transition away from workbooks and toward personal identification numbers will unite work and contribution histories electronically. Doing this and providing workers with annual statements of contributions made on their behalf would help to reinforce the essential checks and balances needed for compliance and enforcement. Citizen Identification Numbers (CIN) were already put into place under the OHR, and systems are aligning to use the CIN in tax filing beginning in 2006.

What would be involved in eliminating the current (old) workbook system? The advantages are clear: employees could more readily jump from job to job, and could hold multiple part-time jobs while still assembling one unified work history. Are there any downsides that should be controlled for? This effort would build on the work of TAMP, CIPS, and the implementation of the citizen identification number (CIN). The team should also conduct a needs assessment to estimate the hardware, software and technology training that will be needed to transition to a new system.

Youth unemployment: several reports note the low rate of employment among youth. What, in addition to workbook elimination and the enabling of multiple part-time jobs through the use of the CIN, could be done to increase their access to formal employment?

Complex governmental structure: what can be done, short of constitutional reform, to increase portability of benefits? Additionally, are measures needed to ensure consistent implementation of policies? For instance, there is some question whether, and to what extent, all cantons are consistently implementing Federation laws & regulations on labor. Do we have two labor markets in BiH, or twelve? Would the proposed combined inspectorate resolve consistency issues?

Study of the Operation of Social Funds

The Social Funds can take enterprises to court for non-payment of contributions, but up to now have evinced little evidence of doing so. The reason could be that the Funds recognize the difficulty of proving their cases. Social tax contributions are remitted annually by firms in lump sums; detangling contributions and tracing them back to the individual worker is a lengthy, complicated process.

It is alarming that the weakness in the Funds' administrative record keeping does not prevent them from penalizing individuals. Keep in mind that without a "stamped workbook," individuals have no recourse to prove contributions were made and everything to lose, especially when it comes to retirement. Workers who fall short of strict vesting requirements are supposedly ineligible to receive any pension. At best, they can file for damages (not their actual pension) and endure a process requiring time, energy and expense to combat a fundamental injustice perpetrated against them, usually without their knowledge or consent.

Under such conditions, it is not surprising that waitlisted workers are disinclined to reclaim their workbooks until arrears are paid, thus making it impossible for a willing SME employer to register them legitimately.

Issues:

- Workers do not feel they "own" the contributions
- If workbooks are replaced with an automated tracking system, what are the system and resource requirements and how long would it take to design and install such system?
- Are public interests served?
- Administrative versus payout costs?
- Innovations in funds collection and administration?
- What avenues exist, or have proven effective in other central European countries, to publish info and create discussion forums for clear, well-publicized information on increases in compliance and the potential to reduce social contribution rates?
- Partial redemption of social contribution claims will become more common when bankruptcy proceedings becomes more widespread; how do the pension funds handle those?
- Ground truth technology used and time/cost of registration at funds.
- Tracking individual's registration and payments made on their behalf. How much lost time and at what price? Do a walk through.]

Objective 2: Assess ways to improve compliance and enforcement of existing laws. (corollary to Objective 1; the goal here is to increase the formal labor market)

Several medium-term steps are needed to strengthen the infrastructure as well as the human capacity that government agencies use to support the private sector. Developing alternative approaches to reconcile labor disputes in a meaningful way will eliminate court backlogs. On the human capacity side, there is a distinct need for inter-agency and cross-entity training to build skills and a collegial approach to solving problems. This is especially true for the work done separately and collaboratively by the tax authorities, labor inspectorates, and employment bureaus in the RS and FBiH.

Strengthening labor inspections

- Do they know what to look for?
- Questions of sufficient money, staffing
- What out of court mechanisms available for resolving labor disputes?
- Emphasis on reconciliation (compliance) instead of punishment
- Delve more deeply into the modalities used for compliance and enforcement between the MLSP (FBiH Ministry of Labor and Social Policy), the MLVA (RS Ministry of Labor and Veterans' Affairs) and their respective tax authorities.

Simplifying procedures for employers submitting contributions

Increase coordination & cooperation between labor inspectorates & tax authority

- Design and offer training on an *interagency* basis to build skills and a collegial approach to solving problems

How to transfer capacity for best practices between entities?

Objective 3: Assess ways to increase labor mobility and flexibility

Smooth labor market function in a modern economy depends upon mobility. Embodied in the concept of labor mobility are two things: geographic mobility (i.e., the freedom to relocate for more desirable employment); and occupational mobility (i.e., the ability to advance within and move across occupations if the requisite skills exist).

Problems with the geographic mobility tend to result from explicit policies to limit or control population movement, such as creating quotas for housing stock or requiring resident permits. Problems with occupational mobility, especially in transitioning economies, tend to be a function of tradition, behavior, and attitude. For example, under the old system, vocational schools were part of a training network designed to meet very specific occupational quotas under central economic planning. Job placement was foreseen and guaranteed with the appropriate degree or certificate from the designated vocational school, and career advancement was a routine expectation of tenure in one's job. Lacking the appropriate VET pedigree made one ineligible for a particular occupation. Today, many find it difficult to shed their reliance on the old system, which removed guesswork, risk – and flexibility – out of employment decisions.

To be fair, certain craft and trade occupations require specialized training and have legitimate cause to demand licensing and certification. No one would be eager to hire a plumber or electrician, for example, based exclusively on the candidate's willingness to work hard or display of critical thinking skills. The two principal reasons to critique reliance on the occupational classification system in BiH are pragmatic. First, the 400 occupational categories³⁷ are too wide-ranging and overly prescriptive; many are ill-suited and even obsolete to a market economy. Second, they set expectations for wages and promotion based on *endurance* (number of years in profession), rather than performance (merit, productivity)³⁸.

BiH is confronting a dilemma not uncommon to many transitioning economies: on the one hand, it is shifting to an economic model under which private sector firms must compete. On the other hand, when it comes to labor, it has not yet figured out a constructive and palatable *balance between competition and protection*. Finding that balance is not easy in any country, because labor market policy choices carry consequences affecting all society, from financial costs the system must bear (such as national health care) to human costs (such as a declining quality of life if health care is unavailable or inadequate).³⁹

Given the challenges of striking the right balance, it is practical to begin by looking at the most obvious rigidities, whose removal poses the least threat to the goals of worker or firm. A clear example of a rigidity that prevents geographic as well as occupational mobility in BiH is the continued use of the antiquated "workbook," a physical attestation of a person's work history, tenure and earnings. The workbook is the essential document used to substantiate and protect one's entitlement to retirement benefits, unemployment benefits and health care. It is also the requisite passport to legal employment, because a worker cannot be registered as an employee of a firm without it.

Mobility from one job to another depends in one sense on the ease of release and re-registration of an employee's workbook. Herein lay the tip of the proverbial iceberg for an estimated 361,500 workers in the shadow economy. For some, there is no issue: they will continue to work in the gray economy by choice. For some, there is no choice: under pressure from a recalcitrant employer, for whom compliance is not a goal, asking to register a workbook jeopardizes their job. Yet for some, the transaction costs of compliance override the will or ability to comply. An unknown subset of this category are "waitlisted" workers, i.e., redundant employees of SOEs who are unable to get their workbooks back until the SOE remits unpaid pension, health and unemployment taxes.

³⁷ Per the EC, the list was recommended to reduce to 100 by the VET and entities, but it is unclear whether this has been done.

³⁸ These simple distinctions are not intended to exclude the value of work experience, which reduces costly on the job mistakes and lost time. The point would be to attribute it to its proper category, "performance," since experience legitimately improves productivity.

³⁹ Every labor market policy choice can be subjected to cost/benefit analysis, and these are two of many examples. Productivity lost due to liberal vacation allowance may be offset by lower stress, improved quality of life, and reduced turnover. The cost of injuries due to hazardous work conditions may be offset by investments in worker education, safety equipment, and inspections.

Workers are the most adversely affected by this situation, yet have the fewest legal options to achieve a remedy on their behalf. As Matt Finkin points out, individuals only have a legal right to sue for *non-remitted salary*, and then only in cases where an individual contract was concluded between the firm and worker.⁴⁰ It is highly unlikely that a worker can individually reach agreement with an SOE. Requesting a workbook with the agreement to drop all claims is an unlikely option for most workers, who stand to lose years of service credited toward their retirement. Even if that were possible, it would still be unlikely without the explicit consent of the six Social Funds, which can still refuse to register the book through a new employer if arrears have not been paid.

Further research, possibly including surveys, is necessary to determine which of the impediments we are aware of constitutes the biggest hurdles to labor mobility. Put another way, which of the following problems – if eliminated – would produce the greatest improvements in labor mobility and the desire and willingness of SMEs to hire labor formally?

- Lengthy notice and severance pay requirements;
- Maternity benefits roughly twice the regional norm;
- Lack of a “lay off” provisions in the labor law, which would allow employees to secure lawful employment with another employer while remaining subject to recall by the primary employer;
- What would be the advantages/disadvantages of a true minimum labor law? Given the path dependence described by Finkin, what have the experience of other central European countries been in eliminating similar old habits and implementing new ones?
- What is the role of employment agencies? Is their primary function benefit administration, or retraining, job search support services, etc? If the latter, how quickly are they switching? Is there room for engagement by USAID on this topic?
- How many temp agencies and intermediary organizations exist? What volume of business are they doing, how are the taxes and social contributions for those workers handled, etc.]

The question of what is the basic hourly wage in the Federation and in the RS is a great deal less clear than we had hoped. It appears that although an hourly wage is specified in the general collective agreement (GCA), private employers, if not subject to that agreement, are free to negotiate wages as they see fit. In practice, however, it appears that the old habits of following the wage levels set out in the GCA and applying the outmoded coefficients remain. Finkin notes on page 32 that:

The difficulty is not with the law, putting its lacunae aside, but with the lack of practical experience of bargaining on a branch or enterprise basis for a wage system responsive to the demands of private sector employment. Here, one faces the prospect of continued reliance on prior modes of thought – on systems of wage coefficients – that, however useful *vel non* for the allocation and reward of labor in a command economy, are dysfunctional in a competitive environment. Nothing in the law mandates the continuation of these systems. Quite the contrary. The law would plainly allow bargaining for wages attuned to job specific skills and productivity as well as consideration of competitive aspects of the labor market. However, abandonment of path dependence and adaptation to this new economic environment may require the provision of continuing education or advising services for a period of time.

The mission would therefore appreciate the team’s recommendations on the advisability of a true minimum wage law (would that eradicate some of the path dependence Finkin refers to?), or other mechanisms for fostering behavioral change.

Objective 4: Assess ways to raise public awareness in support of promoting labor mobility and flexibility, particularly for SMEs.

Opinions are polarized on the value that private small and medium formal sector enterprise will bring to the lives of BiH citizens. There is a particular need to illustrate the density of employment in the private sector, as well as responsible actions by business owners, government workers and labor unions to work progressively and constructively toward solutions that help formal sector firms succeed.

There is no effective voice for SMEs in BiH, nor is the government tracking statistics that capture the economic impact of SME activity. How could USAID constructively stimulate discussion on topics such as:

- What share of employment comes from the SME sector?
- Percentage of all compliant businesses that are SMEs?

⁴⁰The biggest arrears, on the other hand, are accumulated by SOEs, which as far as the team understands, are subject to collective agreements rather than individual contracts with workers. One exception noted, perhaps signaling the rise of alternatives, was the Banja Luka brewery, whose union in recent years pushed through individual contracts between employees and the brewery.

- SMEs are paying twice (perhaps) for health care and maternity benefits which are not delivered; many then pay independently as well
- What role could the newly formed Socio-Economic council play?
- Do workers believe union membership is raising prosperity?
- Is there any role for unions to constructively engage with SMEs?
- What progress has IFC/SEED made on drafting a state-level SME law, and what are its provisions?

Assessment team should examine existing organizations before recommending the creation of new bodies.

Objective 5: Assess ways to improve collective bargaining processes and labor dispute settlements

Both Finkin and the World Bank's 2002 report noted that the new entity labor laws abolished many of the previous wage-setting rigidities and features inimical to a market economy. Despite that, many of those same features were preserved in the collective agreements. The World Bank's 2002 report noted that:

In stark contrast with the positive developments in new Labor Laws in both Entities stand the collective agreements, which remain highly prescriptive and command-oriented, imposing many socialist era regulations on the labor market. Collective agreements not only determine the lowest base wage and wage levels of different categories to which workers are classified, but also prescribe how the base wage is to increase with seniority, difficult working conditions, and individual successfulness. While the new Labor Laws are stimulating flexible labor market adjustment, highly prescriptive collective agreements continue to impose rigidities and hinder job creation, and are thus largely responsible that several features of the new labor relations framework have not fed into the real economy yet.⁴¹

Finkin notes that the collective agreements are not binding on private employers "unless the government exercises its power of extension to bind non-participants in the process."⁴² USAID would like the assessment team to examine the government's viewpoint on extending the collective agreement to the private sector, and what impact the possible advent of tripartite negotiations would have.

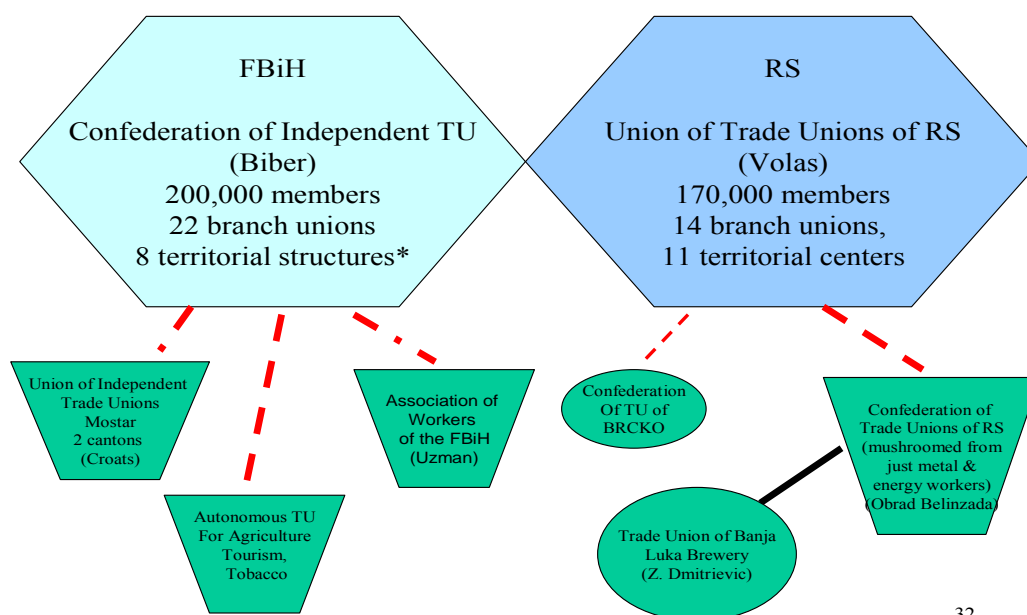
An important factor in the current state of collective bargaining is the difficult position in which the trade unions find themselves. Workers look to them to hold a hard line with the government on paying back wages and contributions. Meanwhile, it is the government which technically accumulated those arrears in the first place, but instead of negotiating compromises they are treating SOE managers as distant relatives who have stayed too long as houseguests.

From a moral and ethical standpoint, the unions have a sympathetic case (with respect to workers owed back wages and social contributions) and a legitimate concern with how the government has handled some privatization actions (selling off physical assets piecemeal and leaving remaining liabilities in the form of wage and contribution arrears as the "enterprise" to be privatized).

Diagram 1: Simplified breakdown of union confederations and alliances

⁴¹ November 2002 World Bank Report, page 45.

⁴² Finkin, page 29.



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Unfortunately, the union response has been tactically weak and strategically prone to failure. They have few constructive responses for dealing with recalcitrant SOEs.⁴³ One might argue that by presenting SOEs with no alternative other than to pay off contributions for waitlisted workers, TUs are quietly complicit in the expansion of the informal economy.

TU leaders feel strongly that they should play a greater role in privatization, and offer examples of “good privatization” as those cases where they were involved in social dialogue prior to privatization. This kind of social partnership has had some measure of success, but few prospective investors see it as desirable. Moreover, their efforts to negotiate a new collective bargaining agreement that extends into the private sector has won them few fans.

A significant problem is elucidating in a transparent way the true reach of TUs. The OHR has requested lists of dues paying members, but TUs refuse to remit, in part based on the argument that this economy has deprived otherwise dues paying members of ability to do so. The unfortunate result of declining membership and dues base is the ability to support programs that might assist workers, such as through litigation, financial support, worker retraining, or acting as a jobs broker by developing an inventory of skilled labor to market to private sector companies.

Still, TU leaders retain a strong voice in the public mind, and consequently could take a leadership role in several areas, should they choose to focus their energies on realistic outcomes. The first would be to quantify in realistic terms the amounts needed to close arrears for “bridge workers,” i.e. those within five years of retirement age. This might lead to a negotiated settlement between the funds and the SOEs to release workbooks for this segment of the workforce. A second area would be to engage in public education efforts for younger workers, who are statistically more likely to be working in the informal economy and not thinking about long-term planning for their retirement.

Questions/Issues on Collective Bargaining:

- What are the prospects for tripartite dialogue?
- Even without tripartite dialogue, what are the prospects for changing behavior in the collective bargaining process? To what extent do the agreements effect private sector employment?
- Where are the windows of opportunity on collective bargaining?
- Where is there the potential for donor overlap?

⁴³ A clear exception was the brewery union in the RS, which had moved to develop voluntary agreements between the union and each member and the brewery, outlining expectations. Acting more as a model of an employee owned company (brewery workers hold shares) management and labor have developed workforce and productivity projections, which in turn helped the union to prepare some workers for eventual layoff or early buy out of their contracts.

- Bearing in mind that the Socio-Economic Council will get TA from both the Cluster Competitiveness Activity (CCA) and the future SPIRA activity, what areas specific to labor might it need further assistance on?

Mediation and Labor Disputes

A law on mediation has been passed, with an association of mediators established and trained. The Finkin report suggests establishing alternate mechanisms for resolution of labor disputes, possibly including a separate labor chamber within the first instance courts, the use of legal assistants, etc. What practical measures would be necessary to implement these ideas, and in what sort of timeframe would there be results? Examine the prospect for workable ADR given jurisdictional problems.

One idea we did not specifically task Finkin with examining, but which we would like the assessment team to research and make recommendations on, is whether or not a labor relations board-type function would be useful in expediting the resolution of labor disputes in Bosnia-Herzegovina. If so, at what level should the board function – as a State-level organization, or as part of the State court? What about separate labor chambers in the district or basic courts? Given the basic goal suggested by Finkin, on pages 25 and 26 of his report, of 90-something percent of labor cases being closed or settled within one year, what measures does the assessment team suggest for achieving that?

Donor Coordination

The World Bank has undertaken an extensive social insurance reform effort, which includes pensions and health, over the next three years under its Country Assistance Strategy (CAS). The primary objective of the project, known as the Social Insurance Technical Assistance Project (SITAP), is to help strengthen the social insurance systems in BiH.

Under SITAP, the WB has committed to assist BiH

- Strengthen its policy and institutional capabilities in the formulation and implementation of effective and meaningful reforms;
- Develop policy options to address some of the key shortcomings of the current pension systems;
- Improve the internal and external reporting obligations and processes;
- Improve the pension administration and oversight, including minimizing employer reporting burdens;
- Improve pension expenditure management;
- Improve social contributions collection compliance and enforcement;
- Improve individual account data gathering and record keeping of contributions and benefits; and
- Upgrade information technology tools and human resource skills

The SITAP project, which began June 2004, is a three year project valued at approximately \$7 million (USD).

In addition, USAID's Democracy Office has funded two activities which are working to strengthen unions: ICFTU, the International Confederation of Free Trade Unions, and ACILS, the American Center for International Labor Solidarity, which is working specifically on the union's role in bankruptcy and privatization.

The team's assessment results should:

1. Identify which of the specific objectives listed above will be addressed by other donor projects to what extent; and
2. Recommend the areas that will not be addressed by other donor projects.

Deliverable

USAID/ERO requests an in-brief to clarify goals and questions, and both oral presentations and a written report at the end on the expert team's action-oriented recommendations. The report should contain:

1. An assessment done to achieve each objective;
2. Findings;
3. Conclusions; and
4. Recommendations.

Recommendations should include time and resource requirements for each objective, including IT requirements analysis and design.

Types of Personnel Desired

One labor mobility specialist to assess collective bargaining and wage determination processes, and other causes of labor rigidity (4 weeks). It is essential for this person, or another team member, to also have some background in unemployment benefits administration. He/she will be the consultant team leader.

One compliance & enforcement expert able to assess and discuss policy issues as well as the practicalities of C&E. This person could have background in a state-level department of labor and/or a legal background, including ADR, labor relations boards, etc. (3 weeks)

One IT expert familiar with the implementation of social contribution administration IT reform, such as described in the section above on eliminating workbooks (3 weeks).

Annex B

LIST OF MEETINGS AND INTERVIEWS

Meetings took place in Sarajevo (S), Mostar (M), Banja Luka (BL) and Pale (P)

Government of FBiH

Dzana Kadribegovic, Federal Ministry of Labor (S)
Nada Luksic, PIO Institute of FBiH (S)
Mustafa Osmanovic, PIO Institute of FBiH (S)
Mirjana Misilo, FBiH Health Insurance Institute (S)
Jadranko Saravanja, FBiH Health Insurance Institute (S)
Ermina Gezo, FBiH Tax Administration (S)
Almira Festic, FBiH Tax Administration (S)
Mustafa Salaka, FBiH Tax Administration (S)
Dzermal Duliman, Federal Labor Inspectorate (S)
Pusukanovic Muhamed, Federal Labor Inspectorate (S)
Hasan Musemic, Director, FBiH Employment Service (S)
Fadil Suljic, FBiH Employment Service (S)
Dervis Djurdjevic, Director, FBiH Statistics Bureau (S)
Director of Herzegovina-Neretva (Mostar) Canton Employment Bureau (M)
Goran Bilic, Chief Inspector, Herzegovina-Neretva (Mostar) Canton Ministry of Labor, Health , Social Affairs (M)
Rabija Sokolovic Herzegovina-Neretva (Mostar) Canton Tax Administration

Government of RS

Milorad Jankovic Employment Bureau RS (P)
Bosko Tomic, Deputy Director, Employment Bureau of the RS (P)
Olivera Kunjadic , RS Ministry of Labor (BL)
Vanja Spanjic, RS Ministry of Labor (BL)
Gordana Jugovic, Chief Labor Inspector, RS Ministry of Labor (BL)
Dragica Rodic, RS Health Insurance Fund (BL)
Slavko Šobot, Director for the RS Institute of Statistics (BL)
Miodrag Djuric, Director, RS Tax Administration (BL)
Ljubo Golijanin Deputy Director, RS Tax Administration (BL)
Vladimir Miljevic, RS Tax Administration (BL)
Gordana Gataric, RS Tax Administration (BL)
Sladjana Rajkovic, RS Tax Administration (BL)
Zdravko Milicevic, Chief Inspector, RS Ministry of Trade and Tourism (BL)

State BiH Ministries/Institutions

Damir Dizdarevic, Assistant Minister, Ministry of Civil Affairs (S)
Jasenka Sahanovic, CIPS – Ministry of Civil Affairs (S)
Huso Saric, Director, BiH (State) Agency for Labor and Employment (S)
Asim Ibrahimagic, BiH (State) Agency for Labor and Employment (S)
Slobodan Gajovic, BiH (State) Agency for Labor and Employment (S)

Office of the High Representative

Vedad Ramljak, Economic Advisor, Office of the High Representative

Businesses and Business Associations from Each Entity

Esad Ibisevic, Federation Employers Confederation President, UPFBiH (S)
Damir Miljević, President of the Employers Confederation of the RS (BL)
Miroslav Vukajlovic, Director, Spektar Employment Agency (BL)
Sinisa Marcic, Spektar Employment Agency (BL)

Trade Unions and Trade Union Confederations from Each Entity

Edhem Biber, President Confederation of Independent Trade Unions, FBiH (S)
Cedo Volas, President of the Confederation of Trade Unions of the Republic of Srpska (BL)
Obrad Belenzada, President of the Unions of Metalworking and Mining Industry of RS (BL)

World Bank /International Donors/ International Agencies

Paul Stone, IOS Partners - WB SITAP implementation
Sasa Cosic, IOS Partners - WB SITAP implementation
Martin Bowen, PKF-UK, DFID Project – Strengthening Public Expenditure Management in BiH

Sam Greer, Chief of Party, Tax Administration Modernization Project, TAMP (S)

Annex C

STATUTORY MINIMUM WAGE - EUROPE

In Europe, statutory minimum wage rates range from just 19 euros a month in the Russian Federation to 1,466 euros a month in Luxembourg. In all but a handful of countries, these rates provide a standard of living that is close to, or even below, subsistence levels. Austria, Denmark, Finland, Germany, Italy and Sweden do not operate statutory minimum rates, but nevertheless have binding sectoral collective agreements that jointly cover a high proportion of the working population.

The International Labour Organisation establishes minimum rates for seafarers. This is currently set at \$500 US per month.

Monthly gross statutory minimum wage rates
Full-time adult employees, aged 23+ (*)
Approximate conversions to euros are shown in red

Country	In local currency	In euros	Date effective**
Belgium		1,317.50	01.02.2004
Bulgaria	150 leva	77	28.01.2005
Croatia	1900 kuna	254	01.04.2004
Cyprus†	350 Cyprus pounds	610	01.06.2004
Czech Republic	7,185 koruna	238	01.01.2005
Estonia	2,690 kroons	172	01.01.2005
France		1,154.13††	25.06.2004
Greece†		559.98***	01.09.2004
Hungary	57,000 forints	232	01.01.2005
Ireland		1,213.33	01.02.2004
Latvia	80 lats	121	01.01.2004
Lithuania	500 lita	145	01.05.2004
Luxembourg		1,466.77****	01.01.2005
Malta	241.06 lira	557	01.01.2005
Moldova	440 lei	26	01.02.2004
Netherlands		1,264.80	01.07.2003
Poland	849 zloty	208	01.01.2005
Portugal†		374.70	01.01.2005
Romania	3,108,000 leu	80	01.01.2005
Russian Federation	720 rubles	19	01.01.2005
Serbia	5,395 new dinars	73	01.02.2004
Slovakia	6500 koruna	163	01.10.2004
Slovenia	117,500 tolar	484	01.08.2004

Spain†		513	01.01.2005
Turkey	489 new lira	266	01.01.2005
Ukraine	262 hryvnia	36	01.01.2005
United Kingdom	840.67 pounds sterling	1,226	01.10.2004

NOTES:

* Where official rates are expressed by the hour or week, they have been converted to monthly rates on the basis of a 40-hour week or 52-week year. Minimum wage figures exclude any 13th or 14th month payments that may be due under national legislation, custom or practice.

** Minimum wage levels last updated.

*** Unmarried white collar workers only

**** Unskilled workers only

† The terms of this wage order entitle a worker to 13 or 14 monthly payments per year.

†† France: based on statutory 35-hour week

‡ Starting salary in non-unionised sectors (increases after six months' service).

Source: Federation of European Employers, Feb 2005

Annex D

MATERNITY BENEFITS – TRANSITION STATES

	Duration	Value	Eligibility
Czech Republic	196 days (259 days for multiple births)	67 % of last wage	270 days of health insurance eligibility in last 2 years
Slovakia	196 days	90 % of last wage	27 days of health insurance eligibility in last 2 years
Poland	112 days for 1 st child, 140 days for add. children	100 % of last wage	Linked to employment
Hungary	168 days	60-70 % of last wage depending on length of employment	180 days of employment in last 2 years
FR Yugoslavia	393 days	100 % of last wage	Linked to employment
Albania	365 days	80 % of salary for 185 days, 50% after	Employment record of more than one year
Bulgaria	120-180 days depending on number of children	100% of last wage; minimum wage for uninsured mothers	Available on both social insurance and social assistance basis
Romania	112 days	50-85% of last wage depending on time employed; 90 % for 3 rd or following child	Linked to employment
Estonia	126 days	100% of average wage in last two months of employment	Linked to employment
Lithuania	126 days	100% of last wage	Linked to employment
Latvia	126 days, linked to prenatal checkups	100% of last wage	Linked to employment
Belarus	126 to 140 days depending on number of children	100% of last wage	Linked to employment
Russia	140 days	100% of last wage	Linked to employment
Ukraine	112 days	100% of last wage	Linked to employment
Georgia	126 days	100% of last wage	Linked to

			employment
Uzbekistan	126 days	100% of last wage	Linked to employment
Tajikistan	140 days	100% of last wage	Linked to employment

Source: UNICEF, "Women in Transition" [1999]

Annex E

Pension Contributions

	Employers	Employees	State	Total	Total Contr./Net Wage	Total Contributions/ Total Labor Cost
Federation					35.3	
BiH						26
Rep. Srpska					24	19
Albania	26	10		36	49	33
Bulgaria	21.75	7.25		29	37	27
Croatia	8.75	10.75		19.5	21	18
Cyprus	6.3	6.3	4	16.6	18	15
Czech Rep.	19.5	6.5		26	32	24
Estonia	20	2		22	28	22
Hungary	18	8		26	32	24
Latvia	0	0	27.1		27	21
Lithuania	22.5	2.5	0	25	32	24
Macedonia	20	0		0	25	20
Malta	10	10	10	30	33	25
Poland	16.26	16.26		32.52	39	28
Romania	23	12		35	45	31
Slovak Republic	21.6	6.4		28		
					36	26
Slovenia	8.85	15.5		24.35	27	21
Turkey	12	9		20-22	24	19

Fultz[2003],Fultz
and Ruch [2000],
Note: base wages
may not be
comparable